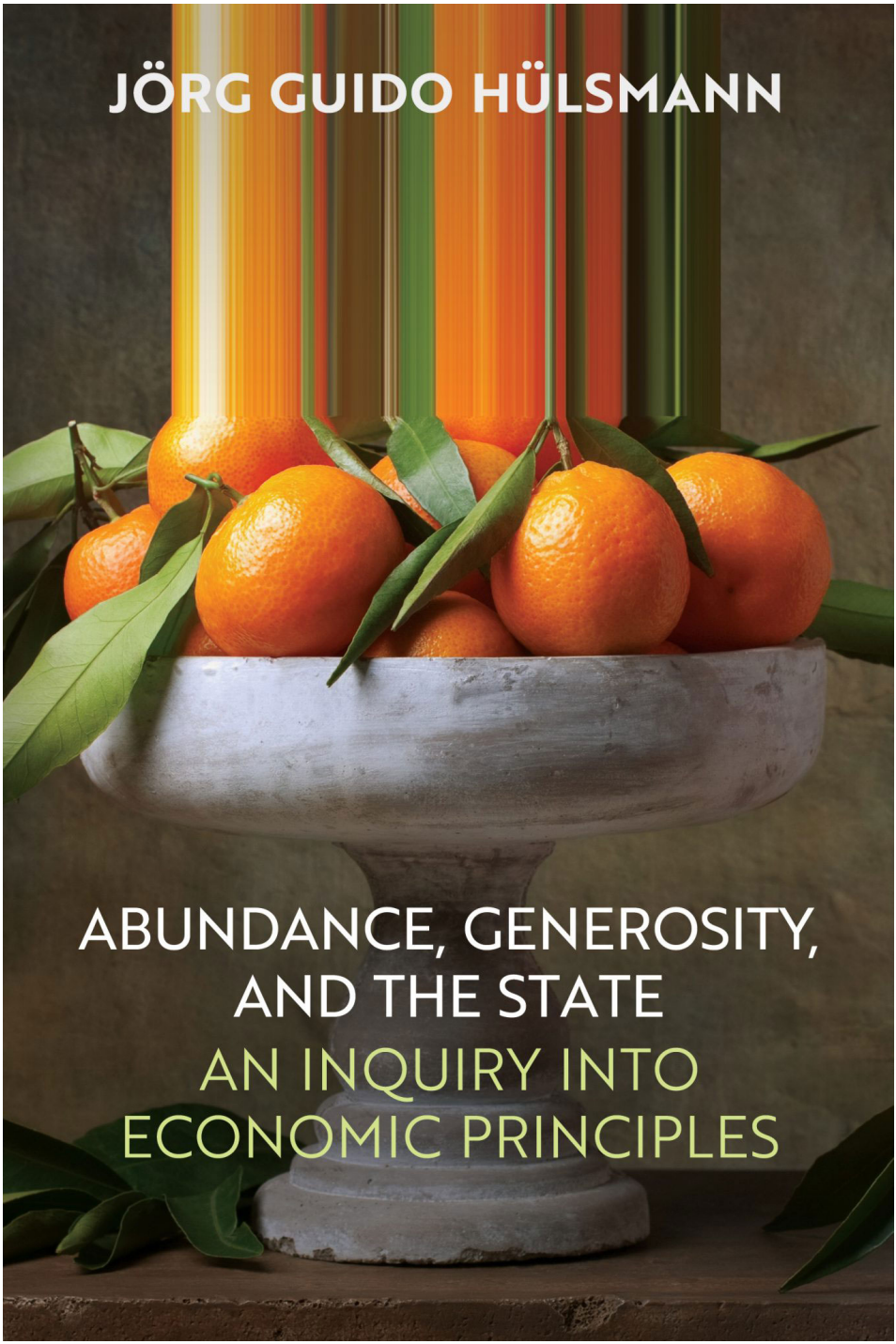

JÖRG GUIDO HÜLSMANN
ABUNDANCE, GENEROSITY, AND THE STATE
AN INQUIRY INTO ECONOMIC PRINCIPLES

Abundance, Generosity, and the State

The Ludwig von Mises Institute dedicates this volume to all of its generous donors and wishes to thank these Patrons in particular:

Anonymous
In honor of David E. Sisk, Ph.D., Emeritus Faculty,
San Francisco State University
Abdelhamid Abdou, William H. Anderson
Armenean Viorica & Ioan, Micasasa
Michael and Sierra Asselta, Dr. John Bartel
Steven R. Berger, Dr. J. Duncan Berry
Paul R. Burbank, in memory of Robinson D. Burbank
Dr. Edward Cain, in memory of John Joseph Cain, Jr.
David Capshaw, John Clifford
Conant Family Foundation, Christopher P. Condon, Jonathan Coe
Matthew Coppedge, in honor of James and Theresa Coppedge
John Cushing, Remy Demarest, Thomas and Lisa Dierl
Ted Earle, in honor of Gloria Alvillar
Edelweiss Holdings PLC, Willard and Donna Fischer
David and Toshiko Fusato, Dietmar Georg
Miguel Gracia Arias, in memory of Miguel G. Moreu
Richard Groux, Charles F. Hanes, Juliana and Hunter Hastings
Sheldon Hayer, in memory of Ed Zeman
Jule and Lynne Herbert, R. Anderson Hord III
Dr. Matthias G. Kelm, Colin Kirkley
Connor Kirkley, Bernard and Joan Koether
Rui Lima, in memory of Ludwig von Mises
Lawrence M. Ludlow, Franco Minetto
Fred and Van Moss, James and Sandy Nardulli
William C. Newton, Andrew Packer, Donald M. and Judith R. Rembert
Patrick Rosenwald, in honor of Arthur Rosenwald
Murray and Florence Sabrin, Fabian von Schilcher
Gary and Ruthanne Schlarbaum, Mr. Petr Smidrkal
Carlton M. Smith, Richard L. Stees
Emmanuel Strategos, Zachary L. Tatum
Steven and Cassandra Torello, Melvin Turner
Gary and Nina Turpanjian, Brian and Shanna Tvenstrup
Prof. Frank van Dun, Peter van Maanen, Dr. J. Stanley Warford
Dr. Thomas L. Wenck, William B. Zieburtz, Jr.

Abundance, Generosity, and the State

An Inquiry into Economic Principles

Jörg Guido Hülsmann

MISES INSTITUTE
AUBURN, ALABAMA

© Jörg Guido Hülsmann

Published 2024 by the Mises Institute (English-language edition) in agreement with the author.

All rights reserved. Written permission must be secured from the Mises Institute to use or reproduce any part of this book, excerpt for brief quotations in critical reviews or articles. For information write: The Mises Institute.

All non-English requests should be directed to the author.

Mises Institute
518 West Magnolia Avenue
Auburn, Alabama 36832
mises.org

ISBN: 978-1-61016-766-6 (hardcover)
ISBN: 978-1-61016-766-0 (paperback)

For Nathalie

Contents

Preface

Introduction

A Matter of Balance
Selective Literature Review
Caritas in Veritate

Part One: The Nature of Gratuitous Goods

1. Gratuitous Goods

Providing and Receiving
Gratuitousness and Justice
Private Property and Gratuitous Goods
The Origins of Gratuitous Economic Goods
A Motive of Human Action
Observation on Gratuitous Evil

2. The Nature of Donations

Devotion
Gratuitousness
Justice
Sacrifice
False Gifts

3. Motivations of Donations

Love
Customary Gifts
Moral Hazard
Altruism
The Rejection of Gifts

4. Reciprocations

Donation Sequences
Reciprocal Relationships
The Mantle of Prices
Gifts According to Marcel Mauss

Part Two: Gratuitous Goods in a Free Economy

5. The Economics of Donations

Donating as a Category of Human Action
The Subjective Value of Donations
Donations and the Market Economy
Donations and Economic Organization
The Sharing Economy

6. Beneficial Side Effects of Human Action

Pure Side-Effect Goods
Material Benefits of Leisure
Cultural Commons
Ownership
Good Examples
Other People's Errors
Side Effects of Exchange
Side Effects of Savings
Gratuitous Evil Resulting from Market Activities

7. The Equivalence Postulate

Aristotelian Origins
Toward a New Meson
Aristotle's Long Shadow
Positive Externalities as Market Failures

8. Natural Limits to Gratuitous Goods

Withering Donations
Privatization
Quacks and Muggers

Robust Gratuitousness

PART THREE: GRATUITOUS GOODS AND THE STATE

9. Interventionism

Private Government versus the Modern State
Repressive and Permissive Interventions
Interventionism and Gratuitous Goods
The Neglect of Interventionism

10. The State as a Provider of Gratuitous Goods

Legal Monopolies
Public Goods
Charity versus the Welfare State
The Enabling State
Fiscal Illusions
Selfless State Agents

11. Haunted Donations

Impoverished Households.
Generosity Discouraged
Depleting the Sources of Donations
Crowding Out Private Welfare Services
Philanthro-Cronyism
Donations Today

12. Interventionism and Side-Effect Goods

Privatization of Pricing Effects
Privatization of Cultural Commons
Sterile Examples
The Inflation Culture
The Evaporation of Ownership
Evasion
Under the Mantle of Stability

Conclusion

References

Index

Preface

Love, friendship, and life are gratuitous. The supreme goods of human existence cannot be bought at any price. Doctors and soldiers can *protect* life to some extent, but they cannot breathe it into dead matter. Gratuitous also are sunshine, wind, photosynthesis, and the fertility of the soil. Gratuitous are the laws of nature, logic, and mathematics. Gratuitous is the fact that many laws of nature can be described with mathematics. Gratuitous are good and bad examples, as well as the benefits of culture and civilization.

Even if we look at the *economic* goods that human beings have to bring about by the sweat of their brows, very often they are provided to and received from others without the slightest payment. Food and clothing for young children, assistance for the handicapped and frail seniors, religious celebrations, birthday parties, charitable donations, inheritances, public schooling, and public healthcare come to mind.

Human life is indeed full of gratuitous goods. Man arrives on earth as a beggar, and as a beggar he leaves it. He receives all initial endowments from others. Eventually, he bequeaths to others whatever he may have accumulated over many years. Gifts at the beginning, gifts at the end. In between, in the midst of all the toil and trouble, of all the bargaining and exchange, is a life full of goods that are gratuitously provided and received.

Despite the ubiquity of gratuitous goods, and despite their paramount practical importance, economists have neglected to study them systematically. To be sure, there are economic writings on gifts, on the welfare state, on externalities, and on a handful of related issues. Half a century ago, the American economist Kenneth Boulding outlined what a general economic theory of gratuitous goods might look like, if only someone cared to hammer it out. But today such a theory is still not there, despite the efforts of John Mueller, Catherine Gbedolo, and a few other scholars. Generosity, gifts, and unearned abundance still stand at the margins of economics. The purpose of the present book is to bring them in.

When I started delving into this subject, my research objective was to fill a few annoying gaps in the literature. Gifts, philanthropy, and the welfare state had already been covered in numerous texts. But other weighty issues had been disregarded. Few writings had systematically dealt with the *unintentional* production of gratuitous goods through for-profit

activities. Next to none had tackled the influence of monetary interventionism on the gift economy and on the side effects of market exchange. I therefore set out to explore these areas, taking it for granted that the standard topics had been covered well enough, even though it did not escape me that previous writers had often disagreed on weighty issues such as the welfare state and the nature of gifts.

However, as I gained a deeper understanding of the field, it dawned on me that I would have to revisit the traditional topics just as systematically as I would the initial research gaps. Most notably, I began to realize that gratuitous goods and markets are not merely complementary but symbiotic. They feed into each other. In order to understand markets, it is necessary to grasp why and how certain economic goods are transferred without payment. Inversely, without at least some basic knowledge of markets and of the interventions of the state, it is impossible to appreciate gifts and the gratuitous side effects of human action.

This realization has straightforward implications for economics as a scientific discipline. It has long been known that economics is not just a theory of markets, but a general theory of human action. Further extensions are possible—so I contend—by studying the gratuitous transmission and acquisition of economic goods. The great pioneer in this field is the nineteenth-century French economist Frédéric Bastiat. Tragically, subsequent generations of economists have tended to focus on the shortcomings of his work rather than on his fruitful intuitions. As we shall see, gratuitous goods shed new light on the foundations of economics; on basic issues such as leisure, savings, and capital accumulation; on the nature of legal and monetary systems; and, more generally, on the workings of the market and of the state.

If the principles of gratuitousness are principles of economics, then it should be possible to write a treatise on economics by taking as the red thread the various ways in which goods are provided and received for free, both within and outside of markets. The present book seeks to make this red thread visible. It walks the reader through a great number of standard issues in present-day microeconomics and macroeconomics. It deals with preferences, subjective value, time, leisure, property rights, ownership, monetary exchange, economic calculation, errors, information, learning, savings, capital accumulation, moral hazard, externalities, market failures, interventionism, monopoly, government failures, public goods, and profits and losses. But the red thread in this book is different from that of standard economics. The focus is not on how and why goods are produced and exchanged, but on how and why goods are provided and obtained without

payment.

The impetus for writing this book came from Pope Benedict XVI's encyclical *Caritas in veritate* (2009). I presented my initial ideas on the economics of gratuitous goods in a 2011 lecture at the Institut Coppet in Paris and then in more detail in the 2016 Lou Church Lecture at the Austrian Economics Research Conference in Auburn, Alabama. I presented my initial thoughts on the sharing economy at the 2017 annual meeting of the Pontifical Academy of the Social Sciences. A sabbatical semester in the winter and spring of 2018, which I spent at Grove City College and at the Mises Institute, afforded me the opportunity to substantially revise and expand my 2016 lecture into the first draft of a book manuscript.

I gratefully acknowledge the support of the University of Angers, of Grove City College, and of the Mises Institute. Special thanks go to my hosts in the United States, Mark and Debra Reuber, Jeffrey Herbener, Shawn Ritenour, Paul Kengor, and Jeffrey Deist. My colleagues Mark Thornton, Walter Block, Michael Bauwens, François Facchini, and Pierre Garello have gratuitously advised me on various relevant points. My friend Anthony Deden has generously shared his scarce time in discussions of ownership, reason, and compliance, which have found their way into this book. I am even more indebted to my friends David Gordon, Jeffrey Herbener, and Reinhard Stiebler, who made liberal donations of their time to review a first draft of the book and provided extensive comments. A few years later, Judy Thommesen and Daniella Bassi from the Mises Institute, and Roger Bissell, provided outstanding editorial assistance to the final version. I am deeply grateful for their dedication, as well as for the support that this book has received from the numerous donors of the Mises Institute who are mentioned in the frontispiece. Finally, I thank my dear wife, Nathalie, for precious counsel and impatience in seeing this book come to life.

Jörg Guido Hülsmann

Angers, France
January 2024

Introduction

Society is based on the division of labor. Each man produces some good or service in excess of his own needs. Each man seeks to exchange or sell that surplus. Each man acts in order to be paid.

This fact has always been a source of irritation and disagreement. In antiquity, menial work was for slaves and other subordinates. Free men did not labor.[1] They did not seek to be paid. They were active within their families and as citizens. They sat in the senate and they went to war. But free Greeks and free Romans were not supposed to work in order to earn their living, and much less so with the intention of earning money.[2]

This rigid moral code put a lid on economic development. It precluded the participation of the best-trained men in the commercial division of labor and created a permanent conflict between political and economic elites. It made the preservation and growth of wealth dependent on slavery. While it facilitated the concentration of wealth in the hands of the political elite and their business allies, this code discouraged the *accumulation of capital* and thus condemned the masses of the population to permanent misery, short lives, and dependence. At the same time, anti-market morals did not eliminate or dampen greed, avarice, and envy but simply channeled them into different areas. Although these characteristics remained in the market, they found their strongest expression in the political process.

Ancient political systems were plagued by deep-seated corruption. The powerful used their political influence to secure revenue for themselves and their friends. The ruling class used all the "tools" that we know from modern politics, including taxation, prohibition, market regulation, deception, manipulation of the masses, and the artificial expansion of the money supply. Just as in our own day, these interventions were used to redistribute wealth from the bottom and the middle of the political food chain to the top, and they were used to stifle current and potential rivals. As time went on, the politics of the ancient world became more and more interventionist.

Concurrently, political power was also being used to conquer and plunder *foreign* countries. The Roman Empire could thrive as long as the internal expansion of power did not hamper the external one. When the economy fell into paralysis and shambles, as it increasingly did after the end

of the second century, Roman military power began to stall and, eventually, to drop behind that of its neighbors. The empire fell because it had not come to grips with the moral requirements of a market economy.

Western civilization then had another run, albeit under very different auspices. From the ruins of Rome, the West rose again under the guidance of the Christian faith (Seipel 1907; Belloc 1912; Stark 2015). The Catholic Church glorified gratuitous suffering out of love for others or for a good cause, just as Jesus Christ had died on the cross for his friends and for all of humanity. Accordingly, the church also taught that labor was praiseworthy. Working was a way to lead a good life, even a holy life. Manual labor and menial work were no longer despised. Quite to the contrary, Saint Paul instructed the faithful, "If any man will not work, neither let him eat" (2 Thes 3:10). This radical inversion of traditional values also extended into commercial activity. Christians preached that it was right and just not only to labor, but also to labor *in order to be paid*. Church teaching provided moral legitimacy not only to monetary exchange, but also to profits and even to interest. The basic moral code, the foundation of all social and political relations, was overhauled. This cultural revolution was spearheaded by Benedictine monks and Scholasticism, and eventually sustained by the hierarchy of the church (Keller 1912; Sombart 1913, chap. 19; Stark 1997; Woods [2005] 2015).3

The consequences were deep and wide. Medieval Europe experienced unheard-of development that eventually led to a cultural and economic renaissance. The eleventh, twelfth, and thirteenth centuries featured a panoply of groundbreaking technological innovations and artistic achievements. As Jacques Barzun put it:

> During the 1,000 years before 1500 a new civilization grew from beginnings that were uncommonly difficult. The breakup of the Roman empire in the 5C had left a few towns and many isolated settlements to fend for themselves against outer anarchy. But the Middle Ages, as the plural indicates, were several ages. Their varied achievements include creating institutions, reforming others (more than once), and—according to some—showing the world two renaissances before the one that has monopolized the name. The latest view is that instead of two such flowerings, there was only one great one, from 1050 to 1250. (Barzun 2000, p. 225; see also Gimpel 1975; Pernoud 2014; Grant 1996, 2001; Harris and Grigsby 2007)

The renaissance of the High Middle Ages was blasted by the Great Plague, the Hundred Years' War, and a concomitant political repression. But it resumed all the more boldly in the sixteenth century and accelerated in the second half of the eighteenth century. By the eighteenth century, the new science of economics had reinforced this movement. The medieval Scholastics did not imagine that per capita production could steadily and sustainably rise for all individuals and all nations at the same time. But the economists knew this to be possible, and Adam Smith brilliantly summarized and presented the principal mechanisms that were at work. He taught that savings and capital accumulation were the source of the wealth of all nations and that monetary revenues steered the division of labor.

A century later, the economists of the Austrian School demonstrated that these insights held true in particular for the revenues earned by the owners of monetary capital. Profits and interest steer the intertemporal allocation of savings and thus the division of labor.

In the light of economics, the exchange of goods and services no longer appeared to be a zero-sum game. Money prices and monetary revenues suddenly looked like elements of a grand mechanism that—like an invisible hand—steered people toward peaceful cooperation within the context of a rational economic order.

A Matter of Balance

This new understanding of the market went along with certain exaggerations. Some writers believed the market process to be a panacea for all human suffering. Some considered prices to be infallible road signs. Entrepreneurs just had to follow the orders of the market—they just had to seek profits—to do what is best, not just for themselves, but for all of humanity. Milton Friedman (1970), one of the greatest twentieth-century champions of economic liberty, embodied this tendency. His most famous newspaper article had the telling title "The Social Responsibility of Business Is to Increase Its Profits."

Another exaggeration was even more momentous; namely, a one-sided analytical focus on market exchange as a mechanism for organizing the division of labor. The Industrial Revolution did not just feature an increase in production and wealth, but also saw a parallel increase in the importance of market exchanges. It was only natural—and largely correct—to see a causal connection here. Within certain limits, growing markets tend to entail greater production and therefore greater wealth.[4] But the temptation was to exaggerate the importance of this relationship, and this is exactly

what happened. In particular, the increasing appreciation of the market-driven division of labor went hand in hand with a neglect, or outright denigration, of gratuitous goods as causes of wealth creation. Gifts and other gratuitous goods seemed to be mere ways to distribute *given* wealth. They were sterile (if not nefarious) as far as the *creation* of wealth was concerned. Smith ([1776] 1994, bk. 1, chap. 3) argued that the growth of the economy was (exclusively) driven by the growth of markets, or, in his own terms, that "the division of labour is limited by the extent of the market."[5] Even beggars, while ultimately dependent on gifts, obtained what they needed "by treaty, by barter, and by purchase."[6]

Smith was admittedly an extreme case. The words "gratuitous" and "gift" can each be found exactly once in *The Wealth of Nations*.[7] While he acknowledged that all *revenues* result from human labor *and* from nonhuman natural resources—they are the "annual produce of the land and labour"—the *value* of these revenues, or wealth, springs from human labor alone. In Smith's conception, wealth is the power to purchase labor services ([1776] 1994, p. 34).[8] What this means is that gratuitous benefits are *by definition* excluded from economic analysis *à la* Smith. Wealth cannot possibly spring from the gratuitous gifts of nature nor from the side effects of human action. Wealth is joined at the hip to duly compensated labor.

This has remained true, by and large, to the present day. The general tendency in economics has been to leave gratuitous benefits as much as possible out of the picture when it comes to explaining the causes and consequences of wealth. Even some of the very distinguished economists who have contributed valuable insights to the economics of gratuitous goods have emphasized that the study of these goods is simply not the economist's business.[9]

It is, however, impossible to take gratuitous goods completely out of the economic picture. Their presence is such an undeniable fact that they willy-nilly have to be referred to *somehow*, if only implicitly. The general tendency, therefore, has been to obfuscate them. For example, when present-day economists talk about "consumer surplus," they thereby acknowledge that market exchange may convey gratuitous goods yet without using the word "gratuitous" or any similar expression.

The one-sided analytical focus on markets led most economists to believe that any growth of markets is always and everywhere conducive to a sustainable increase in aggregate output. As they had it, the trade-off between market and nonmarket activities concerned the proper balance between production and consumption. It did not seem to concern production as such. The latter could always receive a shot in the arm from

expanding markets.

The best-known expression of this point of view in our day is Keynesian macroeconomics. According to John Maynard Keynes and his followers, virtually any increase in the size of markets, especially of labor markets, is beneficial. Insufficient aggregate demand puts a cap on the exchange of goods and services and, therefore, on the division of labor. Fortunately, the government has various tools, most notably the printing press, to prop up aggregate demand. It can create markets where there would be none without government intervention. It can increase the size of markets beyond the level they would reach in an unhampered economy.

The one-sided analytical focus on markets paved the way for two-pronged interventionist economic policies. On the one hand, government interventions were called for in order to create or extend markets. On the other hand, regulations and the welfare state were used to repair or alleviate the excesses that resulted from the inflation of markets. Although these interventions moved in opposite directions, they fed upon each other. The artificial promotion of markets created corruption, indifference, and irresponsibility. It widened the gap between rich and poor; and it alienated rich from poor, young from old, wage earners from capitalists. Such problems served to justify government "social" policies and control of business, both of which in turn *reinforced* the problems of corruption, indifference, and irresponsibility.

The one-sided focus on the benefits of markets also led to various reactions in economic thought that were just as one sided and ill fated. Some who saw the flaws of bloated market systems believed it was possible and expedient to get rid of markets altogether. Some believed that free societies were naturally prone to materialism and that nonmarket activities could not thrive without support from the state. Some believed that nonmarket activities were incompatible with capitalism. In short, one intervention entailed the next, and one theoretical one-sidedness entailed many others.

The only way out of these tiring and destructive spirals is to establish a proper balance, first and foremost on the cognitive level, so that the right balance may also be found in practice. Finding the right balance does not mean reinventing the wheel. It is true that much of what passes as economic science today is wrongheaded. But the science exists. It is merely incomplete and disorderly. To establish a balance, it is necessary to reflect on the relations between market and nonmarket activities. In order to understand the scope and limits of the economic goods that are exchanged on the market, it is necessary to study the scope and limits of the economic

goods that come free. The purpose of the present book is to do this in a systematic way.

Gratuitous goods and services play a central role in a free economy. They not only affect the distribution of incomes but are also a driving force of production and the division of labor, of saving and investment. They do not just exist side by side with market exchanges. Rather, they infuse the market itself, and they thrive and perish along with it. There is a proper balance between gratuitous goods and goods that have to be paid for. This balance is not rigid and one-dimensional. It varies in the course of time, under the impact of changing cultural, political, and economic circumstances. It tends to be established when people are free to act within their property rights. If such freedom of action is curtailed by the force of the state, equilibrium cannot be reached and gratuitous goods and services take a hit. They suffer when markets are inflated. But they suffer no less when markets are suppressed.

These are the central ideas that will be developed in this book.

Selective Literature Review

We have already mentioned that Smith was especially adamant in portraying labor as the exclusive source of economic goods, specifically of the value of these goods. Nature herself was in Smith's eyes not the proverbial corn of abundance, but a zealous maid who "worked" and "laboured" hand in hand with man.[10] Without much exaggeration it may be said that the economic theory of gratuitous goods had reached an early nadir in *The Wealth of Nations*. Things could only improve from here. As Jean-Baptiste Say ([1803] 1861, p. 71) pointed out, Smith had inverted the position of the physiocrats.[11] The latter had argued that human labor never created any *net* value. *Only nature* did, and she did so gratuitously.

Say himself considered that labor *and* nature were the ultimate causes of wealth.[12] Ironically, although he had excluded gratuitous goods from the field of political economy, he in fact did study these goods' relation to value, prices, and revenues, albeit in a rather incidental manner, as we shall see. Say also discussed the merits of gratuitous money production and gratuitous civil service, especially public administration and public schools.

Say and David Ricardo paved the way for Frédéric Bastiat, who a generation later studied these relations much more systematically and generalized them into a new philosophy of "social harmonies." We will discuss his ideas in more detail in chapter 6. More than any other economist before him, Bastiat studied the role of gratuitous goods within

society and the economy. He saw these goods as being at the very heart and foundation of the material abundance that spontaneously resulted from a social order based on private-property rights. Catherine Gbedolo (2015, chap. 1) rightly called him the father of the economics of gratuitous goods.

The marginalist revolution of the 1870s then brought about a setback in the study of gratuitous goods. The word "gratuitous"— though prominent in Say's work and central in the writings of Bastiat—was not used even once in Carl Menger's *Principles of Economics* nor in Léon Walras's *Elements of Pure Economics*. The subject was equally neglected by Vilfredo Pareto, Friedrich von Wieser, and all the other pioneers of the new economic approach.

Let us look at the principal British authors in a little more detail to illustrate this point. In Stanley Jevons's *Theory of Political Economy*, the word "gratuitous" is used exactly once, when the author mentions the gratuitous fruits of nature, though he takes care to clarify that these fruits are "almost gratuitous" (Jevons 1871, p. 182). Like Smith, Jevons did not believe nature's goods to be genuinely gratuitous at all, and we shall see later that he was also adamantly opposed to all organizations that provided relief and other gratuitous services. Reading Smith and Jevons, two eminent British economists separated by a century, one may get the distinct impression that the studious neglect, and even denigration, of gratuitous economic goods has been a characteristic of the British tradition of political economy.

Things improved somewhat with Alfred Marshall, who, in line with the Continental authors, recognized and emphasized the importance of the "free gifts of nature"—an expression he used eighteen times in his *Principles of Economics* and which designated the income derived from the free goods of nature (see Marshall [1890] 1920, p. 74). Marshall stated that the River Thames, a free gift of nature, had contributed more to English wealth than all canals combined, and maybe more than all the railroads of the country (p. 59). Marshall also emphasized that market exchange may have incidental positive repercussions for outsiders. Yet in this context, he shunned any use of the word "gratuitous" and its variants.13 The gratuitous benefits that the activity of one person creates for other persons are in Marshall's idiom "external economies," or, in today's jargon, "positive external effects."

Marshall's disciple Arthur Cecil Pigou then fell back into the traditional habit of British economists, making no reference to gratuitous goods and services, as far as the ordinary operation of a market economy was concerned, at any rate. In his celebrated *Economics of Welfare*, he elaborated the Marshallian concept of external economies. But like

Marshall, Pigou carefully avoided in this context any use of the word "gratuitous" and its variants. When dealing with the market economy in general, he barely mentioned the gifts of nature (Pigou [1920] 1932, p. 28). By contrast, Pigou explored with loving care the various welfare-enhancing policies that governments could pursue by handing out taxpayer money (pp. 722ff.), a subject that we will discuss in some detail in chapter 10.

The bottom line is that the new marginalist approach was not a boon for the economics of gratuitous goods, as it could have been and as it should have been, but a deplorable setback after what Bastiat and others had already achieved in the mid-1800s.

Now, there are straightforward reasons that might account for this failure. The marginalist approach was a decisive breakthrough in *price* theory. Two subsequent generations of economists were absorbed in the task of assimilating the implications of price theory and applying it to various fields of market analysis, such as factor pricing, money, business cycle analysis, and international trade.

This initial focus on market phenomena was reinforced by a simultaneous attempt to introduce mathematical modeling into economics. Such modeling was greatly facilitated by the hypothesis that market participants are driven exclusively by the desire for monetary gain (the *homo oeconomicus* hypothesis). It was also facilitated by the exclusive focus on hypothetical equilibrium situations, in which costs are equal to price, as well as by the postulate that all economic goods are either exchanged or transferred as gifts. But it was precisely this sort of modeling which created a tension between the model and observed reality. It was this modeling which hampered the conceptualization of gratuitous goods, and of market and nonmarket behavior, under one theoretical roof.

The focus of mathematical reasoning is invariably on the quantitative dimensions of any problem. In economics, this focus has deflected attention away from the study of subjective value, intentions, and other factors in human action that do not have a numerical dimension. Unfortunately, with the increasing adoption of mathematical reasoning to the exclusion of any other, the intellectual horizon and the toolbox of economic thinking have been dramatically curtailed. Today, the training of doctoral students in economics typically revolves around the production and interpretation of quantitative data. All other issues pertaining to the economic analysis of reality are, at best, dealt with in secondary courses. As a rule, these issues are relegated to other disciplines, such as philosophy, sociology, anthropology, and law.

It goes without saying that this trend is particularly pernicious with

regard to our present topic. It is indeed impossible to properly deal with the economics of gratuitous goods without some basic notion of subjective value, property law, the theory of social acts, and the epistemology of the social sciences, to name just a few analytical tools. The analysis of donations also crucially relies on the distinction between final and efficient causes, a distinction that would have been familiar to all scholars of the nineteenth and even of the early twentieth century, but which is almost completely ignored by present-day economists.

One notable exception to the mathematical transformation and conceptual impoverishment of economics was the Austrian School, which largely preserved the traditional realist approach to economic science. Menger and his disciples rejected mathematical modeling of human action out of principle. They could therefore dispense with the haphazard assumptions about human behavior that were so convenient, if not necessary, for the construction of mathematical models.

The writings of Menger's disciple Ludwig von Mises paved the way for the integration of nonmarket behavior into a general theory of human action, which Mises called praxeology. In Misesian thought, there was still a focus on the economics of markets, but this focus was now part and parcel of a more general conception. Mises's theory contained most of the elements needed to restore the much-needed balance between market and nonmarket activity that we referred to earlier. It is true that he did not work out a theory of gratuitous goods. However, Mises provided a general framework for such a theory, as well as several important elements, most notably an analysis of gratuitous-credit policies, of profits and losses, and of the social role of creative geniuses. He also developed the classical economists' theory of interventionism, especially monetary interventionism, which is of fundamental importance to understanding the impact of public policies on gratuitous goods, as we will see. The present book is squarely built on the foundations that Mises established seventy years ago. We will show that the Misesian realist framework is a suitable foundation for a general theory of the nature, forms, causes, and consequences of gratuitous goods.[14]

Despite its prominence, the Austrian School has always been a minority movement within twentieth-century economic science. The majority was committed to the positivistic modeling that we just mentioned. It was inevitable that the mainstream movement would be criticized for its analytical shortcomings and that other disciplines would emerge which sought to cover those aspects of human action that did not make it into the models. With respect to gratuitous goods, the most formidable challenge

came initially from outside of economics.

In 1923–24, the French anthropologist and sociologist Marcel Mauss presented a study of gifts in primitive societies. He extrapolated his findings into a number of general contentions about gifts and their role relative to markets. He contended that, strictly speaking, there is no such thing as a pure gift at all. And neither is there something like a pure contractual exchange between consenting individuals. In the real world, he argued, all social relations are based on reciprocity, but the respective obligations cannot be final and conclusive. They are partially determined by the exchange partners but are mostly regulated by overarching customs and social conventions. Every individual act of exchange is part of a *social* network of claims and obligations. Therefore, exchange can never finally fulfill obligations, but always takes place within the framework of an unfinished and unfinishable reciprocity. We will discuss these ideas in chapter 4.

Mauss's book had a great impact on subsequent generations of anthropologists and sociologists.[15] Like Mauss and like Émile Durkheim (Mauss's father-in-law), most of these writers sought to develop a theory of human action in deliberate opposition to economics. This ill-fated attempt was motivated most notably by the reluctance to accept the political (pro–free market) implications of economics.

The paradigmatic example of this strand of the literature is Marshall Sahlins's brilliant 1974 book *Stone Age Economics*. With a sleight of hand *à la* Rousseau the author claims that scarcity is not a universal condition of human life but rather has become widespread and important only in recent times: "The market-industrial system *institutes* scarcity, in a manner completely unparalleled and to a degree nowhere else approximated" (Sahlins [1974] 2017, p. 4, emphasis added). By contrast, in the age of hunters and gatherers, there reigned a "pristine affluence" (pp. 27, 38). Humans benefited from an abundance of animals, vegetation, and materials that just lay around them, "free for anyone to take," such as "stone, bone, wood, [and] skin" (p. 10). Our primitive ancestors were bathing in abundance because their consumption was moderate and not artificially stimulated by advertisements and competition for wealth and power (cf. pp. 76, 103, 121, and passim).

These are fantastic claims. The evidence continues to show that stone age communities were not blissful paradises of abundance, leisure, and generosity. They were permanently engulfed in wars, were habitually starving, and helplessly suffered from disease and high infant mortality.

Other authors, while not denying the problem of scarcity, have set out

to construct a new economics by synthesizing Mauss's teachings and traditional economic science, yet without endorsing the free-market political conclusions of standard economics. An interesting and representative case in point is François Perroux (1960, 1963, 1981).

In his *Économie et Société* (1960), Perroux brushes aside economic analysis à la Henry Hazlitt (p. 5) and Ludwig von Mises (p. 9) and sets out to rebuild the discipline on a new interpretation of Adam Smith, John Stuart Mill, Karl Marx, and Léon Walras. In Perroux's eyes, the cardinal sin of conventional economics is to focus too unilaterally on the single paradigm of perfect market exchange, that is, on the hypothetical exchange of equivalent values. However, real-world markets are not of this sort. The traded goods never have the same value and therefore one person always gains at the expense of another. In other words, market failures abound. Moreover, there is no correction mechanism inherent to the free market. The market is an invasive institution ("une institution envahissante," p. 130) that tends to spread and amplify the problems resulting from its own internal shortcomings and contradictions. A solution must therefore come from outside of the market. Perroux argues it should come in the form of coercion and gifts. However, he considers that both have been completely neglected in standard economic theory and policy. He therefore sets out to re-emphasize their role and proceeds to study gifts by closely following the Maussian approach (pp. 156–76 and passim).

Perroux's book still serves as a lesson on how *not* to construct a theory of gratuitous goods, both in substance and in style. Perroux's cardinal flaw was to try to replace economics root and branch with an eclectic amalgamation of insights, models, and hypotheses derived from different (and often incompatible) theoretical frameworks. Among the authors who did not make it into this conceptual hotchpotch were his countrymen Say and Bastiat, who could have taught him a thing or two about gratuitous goods. Perroux wrongly chided economics in general for its emphasis on methodological individualism, and he conflated the integration of gratuitous goods into economics with the introduction of methodological holism (collectivism). He despised the works of mainstream economists, but just like them, Perroux confused economic analysis with modeling exercises. Like Pareto, Marshall, and Wieser, he spuriously distinguished economic motivations from noneconomic motivations. And he did not show the slightest awareness of the particular problems raised by government interventionism.[16]

Another writer who famously combined Mauss's conception of gifts with poor economics was Richard Titmuss, the godfather of the British

National Health Service (see Hughes 1991, p. 18). In distinct contrast to Perroux, Titmuss never received any formal training in economics whatsoever. He was an autodidact working on problems of social administration and social policy. In his book *The Gift Relationship: From Human Blood to Social Policy* (1970), he categorically opposed blood markets of any kind. Blood just *had* to be provided in the form of blood donations.

Titmuss's argument was largely based on a comparison of the US health system (where about a third of all blood donors were paid) with the health system in England and Wales, which entirely relied on unpaid volunteers. He presented three main arguments.

First, "a private market in blood entails much greater risks to the recipient of disease, chronic disability and death" (Titmuss 1970, p. 157). Titmuss highlighted various problems in the US blood market. Most notably, he showed that during blood shortages, which prompted rising blood prices, the additional supplies which came to the market were systematically of a lower quality than the older blood stocks. He concluded that a purely gift-based system of blood provision was preferable to a market-based system. Paid blood donors tended to be "more reluctant and less likely to reveal a full medical history and to provide information about recent contacts with infectious disease, recent inoculations, and about their diets, drinking and drug habits that would disqualify them as donors" (p. 151). Secondly, he contended that the market-based system "represses the expression of altruism, erodes the sense of community, lowers scientific standards, limits both personal and professional freedoms," and "places immense social costs on those least able to bear them—the poor, the sick and the inept" (pp. 245–46). And thirdly, even if a market for blood was introduced only in some regions, it would create problems for other regions by depleting their supplies.

However, Titmuss's argument was riddled with flaws (see Arrow [1972] 1975; Shearmur 2001). For example, he blithely assumed that blood *buyers* would never differentiate between better and worse blood, for if they did, the different blood qualities would be reflected in different prices, and blood of insufficient quality would find no purchaser at all. He did not anticipate that the process of selecting blood donors might become politically contentious, by requiring the donors to "divulge what is normally private information (regarding drug-taking and sexual practices), information that touches on social identity, not just individual medical history" (Steiner 2003, p. 151). He also failed to anticipate the increasing need for blood products (especially plasma and its derivatives) which can be preserved for longer periods than the blood itself. All of his thoughts

revolved around the static scenario of blood transfusion needs. He did not imagine how new technologies might revolutionize the demand for and supply of blood and how markets could help those who had to deal with these changes. Last but not least, Richard Titmuss failed to properly assess the risks of a purely donations-based blood supply, and he completely failed to study the pitfalls of his preferred statist solution of entrusting public bureaucracies with managing blood banks and selecting blood donors.[17]

Some of Titmuss's arguments merit careful consideration. For example, it is true that the development of blood markets would likely change the motivations of former donors and it is also true that changes of this sort are likely to become culturally entrenched. However, acknowledging such facts is not tantamount to condemning blood markets and endorsing health socialism. *The Gift Relationship* failed to make a solid case for the latter, not least of all because it was not rooted in a solid theory of gifts.

Similar fallacies have bedeviled many other works which (without relying on Mauss) tried to bring gratuitous goods into the purview of economic analysis.[18] One example is Bernhard Laum's (1960) book on the "giving economy" (*Schenkende Wirtschaft*). The author describes the role of gifts in the human economy, as well as the historical transformation of that role from the Middle Ages to the present day. He argues that in the medieval economy, giving held center stage. Only in modern times has giving been relegated to a secondary position, behind production and exchange. This transformation does not meet with Laum's approval. He deems it to be regress rather than progress.

So far, so good. The trouble is that Laum does not explain *why* this transformation took place. Neither does he explain why the greater prevalence of gift giving in the Middle Ages should be considered *preferable* to the modern situation. But without understanding the driving forces behind a historical process, there can be no true understanding of it, nor is it possible to come to any viable practical conclusions.

Let us illustrate this problem with one of Laum's central contentions. He argues that sharing a meal with guests is the archetypical form of economic activity. In the Middle Ages, it still held center stage and was celebrated with public or semipublic banquets, but it gradually faded into the background. In other words, the economy was formerly consumption centered and gift centered, and this shaped the very meaning of economic activity.[19] By contrast, today, production and exchange predominate.

Now, let us grant for the sake of argument that Laum has correctly stated the facts. This still leads us nowhere because he does not tell us anything about the underlying causes. *Why* was the medieval economy in

Europe more consumption centered than the modern one?

Laum insinuates that the medieval period was defined by a joyful and altruistic mindset, whereas today's mentality is obnoxious and stingy because thinking and acting revolve around production and exchange. However, this is clearly not the whole story. The lavish banquets of the Middle Ages brought together rather small groups of affluent and powerful persons (and their servants) whereas the peasant population was often starving. Moreover, sumptuous meals were an outgrowth of medieval political organization (see Hüllmann 1805, pp. 88ff.). The provinces were ruled by delegation from suzerains to vassals. Such delegation could be revoked; therefore, the position of the vassals was fragile. When their suzerain paid them a visit, they were obliged to host him, and they had a strong interest in doing it well. Kings and military leaders often showed up with a considerable following (and troops) and expected to have full access to all the resources of the land, including food and drink. Their consumption was usually excessive, as they tried to squeeze the maximum material benefits out of these short stints. They could not expect to take much money, as monetary exchange was still in its infancy. They therefore helped themselves to food and drink as much as possible. To protect the vassals against the potentially ruinous consequences, the exact supplies to be surrendered to a travelling suzerain, as well as the quality and quantity of dishes and drink to be served at the banquets, were eventually regulated.

In other words, the great banquets of the Middle Ages must not be misinterpreted as emanations of sociability and altruism. They were not even business meals. They were part and parcel of vassals' tribute to the overlord. These meals were a mortal threat to the working population. Their disappearance after the Renaissance brought great relief.

Let us now turn back to those writings which were most helpful for our study of the economics of gratuitous goods. We have been able to rely on philosophers like Saint Thomas Aquinas, Edmund Husserl, Martin Heidegger, Jacques Derrida, and Jean-Luc Marion. They studied the nature of giving and givenness and thereby contributed to this analysis, which is more strongly focused on the causes and consequences of economic goods. But one philosopher, Josef Pieper, was a major source of inspiration for the present work. We have benefitted not only from his well-known studies on the virtues, but also, especially, from his short monograph on the nature and social role of leisure and sacrifice, which he published right after World War II under the title *Muße und Kult* (*Leisure, the Basis of Culture*). Our economic theory of donations is built on the foundations that Pieper laid out in this work.[20]

We have already mentioned that the theories of Bastiat and of the Austrian School are foundational for the economics of gratuitous goods. Next to them, Kenneth Boulding deserves another place of honor. In distinct contrast to Laum, Titmuss, and many others, Boulding provides a genuinely economic analysis of gratuitous goods in his short monograph on the economic role of transfers—or grants, as he also called them. It is quite close in structure to our present volume. *The Economy of Love and Fear: A Preface to Grant Economics* distinguishes between voluntary and forced transfers (Boulding 1973, p. 3). The former are typical emanations of "love," whereas the latter result from "fear." In the light of this distinction, Boulding goes on to cover all major elements of the economic analysis of gratuitous goods. Most notably, he tackles the crucial issue of unintentional gratuitousness, an issue that is prominent in the works of Bastiat, though Boulding does not make reference to this illustrious predecessor.

Boulding's analysis goes beyond the *gratuitous* provision of economic goods. Not all grants are unconditional gifts. His decision to focus on grants seems to have been at least partially inspired by a concern with connecting his theoretical discussion to the available statistical material (Boulding 1973, p. 2). Neither does Boulding take sufficient care to study the conditions under which gratuitous goods emerge or the forms that they can take. Most importantly, he does not examine in any systematic way the impact of government interventionism on the provision of gratuitous goods. However, despite these limitations, Boulding's book is a helpful source on which we will rely repeatedly in the following pages.

Another strand of literature that has served us well concerns the economic analysis of the welfare state or, more generally speaking, the economics of forced transfers. Next to the very abundant literature on gifts, there are many valuable economic discussions of the welfare state, written by both its proponents and opponents: Beveridge, Pigou, Jouvenel, Mises, Rothbard, Seldon, Cogan, Bartholomew, Dalrymple, Habermann, and Rhonheimer. We will refer to these writings in part three.

However, the motivation for writing the present book did not come from Boulding or Pieper. Neither did it come from Say, Bastiat, Mises, Laum, or Perroux, even though I have long been familiar with their writings, which have proved to be very useful. Rather, my inspiration came from Pope Benedict XVI's encyclical *Caritas in veritate* (Love in truth), published in 2009. Here the Holy Father drew attention to what he calls "the principle of gratuitousness." He argued that this principle manifests itself in the divine gifts of love and truth, without which human life and authentic fraternity are strictly impossible. Benedict suggested that the

principle of gratuitousness also determines economic life and would shape it much more thoroughly than at present if it were allowed to develop unhampered. And he called all people of goodwill "to demonstrate, in thinking and behaviour, . . . that in *commercial relationships* the *principle of gratuitousness* and the logic of gift as an expression of fraternity can and must *find their place within normal economic activity*" (2009, sec. 36).

When *Caritas in veritate* was published, the present author did not take the challenge. He was busy with other projects and did what professors often do in such cases: he handed the job over to a doctoral student. As a consequence, Catherine Gbedolo (2015) set out to explore these neglected grounds. In her dissertation, she revisited the history of French and German economic thought and discussed the works of Bastiat, Proudhon, Mauss, Laum, Perroux, and other forerunners in the field and outlined an economic approach to the study of gratuitous goods, building on the best elements in the works of her predecessors. The present work develops and extends the general logic of Gbedolo's approach and covers the English literature on our subject in greater detail.

Caritas in Veritate

It is appropriate to give a short presentation of *Caritas in veritate*. It is similarly appropriate to warn the reader that throughout this book, and especially in part one, we shall make frequent references to biblical sources and theological ideas. The purpose of these allusions is not to claim their authority, but to show how the narrow economic point of view may fit within the broader conceptions of Christian theology and philosophy. It is our response, however imperfect, to Benedict's challenge.

Benedict XVI points out that without love, man is unable to embrace nature, other human beings, and himself and that without truth, the forces of nature cannot be tamed and individual and social conflicts cannot be solved. The ability to love and to recognize the truth is inborn, yet neither results from human choice. Truth and love cannot be decreed, nor can they be produced. Truth comes to us without being so directed. It comes in the form of *in*sight, *in*vention, and *in*tuition. Similarly, love for God and for our fellow men is the result of neither human action nor human design. We cannot produce that love within us by an act of sheer will; we must receive it gratuitously from our divine creator.

The principle of gratuitousness, which we encounter first and foremost in the divine gifts of truth and love, also manifests itself in the material world. Gratuitousness does not only concern spiritual, eternal, and supreme

goods such as love, hope, faith, and truth. It also concerns *economic* goods. Economic life is in many respects based on gratuitous services; therefore, an economy is only truly flourishing and truly human if it does not hamper this gratuitousness but allows it to fully develop.

Caritas in veritate develops the principle of gratuitousness in some detail. As far as the principle's spiritual dimension is concerned, the encyclical's message is strong and clear. While remaining intriguing and suggestive, *Caritas in veritate* ceases to convince as soon as the Holy Father tries to apply the principle of gratuitousness in the material sphere, and especially in the scarcity-infused economic world.

We find statements such as the following:

> Space also needs to be created within the market for economic activity carried out by subjects who freely choose to act according to principles other than those of pure profit, without sacrificing the production of economic value in the process. (Benedict XVI 2009, sec. 37)

Benedict XVI elaborates:

> What is needed, therefore, is a market that permits the free operation, in conditions of equal opportunity, of enterprises in pursuit of different institutional ends. Alongside profit-oriented private enterprise and the various types of public enterprise, there must be room for commercial entities based on mutualist principles and pursuing social ends to take root and express themselves. It is from their reciprocal encounter in the marketplace that one may expect hybrid forms of commercial behaviour to emerge, and hence an attentiveness to ways of *civilizing the economy*. Charity in truth, in this case, requires that shape and structure be given to those types of economic initiative which, without rejecting profit, aim at a higher goal than the mere logic of the exchange of equivalents, of profit as an end in itself. (2009, sec. 38)

In the eyes of a professional economist, these statements are vague and partly mistaken. It is vague to speak of "spaces for economic activities," "economic values," and "hybrid forms of commercial behaviour." It is mistaken to believe that the market is particularly beneficial if entrepreneurs and their firms operate under "equal opportunity" (especially if this refers to some sort of material equality, rather than equality before

the law) and that markets tend toward, or aim at, the exchange of equivalents.

It would be tempting to give a line-by-line commentary on the economic content of the encyclical. But this would be a sterile exercise. An encyclical is not a scientific paper. Its objective is not to compete with economists, sociologists, physicists, historians, or physicians as far as the explication of the material mechanisms of our world is concerned. The basic aim of *Caritas in veritate* is to call for reflection and for action in regard to the principle of gratuitousness. There are many open questions around the manifestations of this principle in the material world. What is the precise nature of gratuitousness? What are its forms? What are its causes and consequences? What is its scope today, what could it be, what should it be? On these questions, the pope has weighed in with the authority of his divine office. He has opened a debate, but not closed it. He has called for action, yet without providing a blueprint. He has posed a challenge to the scientific community and to practical people.

The first major publication in response to this challenge was John Mueller's *Redeeming Economics: Rediscovering the Missing Element* (2010). Mueller admires Smith, Mises, and Gary Becker. He does not criticize them for what they have done, but for what they have failed to do. He contends that their shortcomings are endemic to modern economics, which Mueller calls "post-Scholastic" economics, and can be repaired by reverting to the writings of Saint Augustine and Saint Thomas Aquinas.

Mueller walks the reader through his vision of the history of economic thought, from Aristotle to the church fathers and the Scholastics to classical and neoclassical economists. Mueller claims that starting with Smith, economists have one-sidedly focused on problems related to production and exchange and have neglected to develop a proper theory of consumption and distribution, one that includes gifts. By bringing the insights of the Scholastics back into the picture, however, this deficiency can be amended in the form of a new paradigm that he calls neo-Scholastic economics. Mueller then sets out to apply his theoretical conceptions to the household economy (marriage, child-rearing, spending patterns) and to economic policy issues (protectionism, government failure, unemployment, and inflation).

Redeeming Economics contains valuable insights and conjectures that are relevant for a theory of gratuitous goods. For example, Mueller underscores Saint Augustine's contention that the ultimate objective of all human action

is the love of persons, not of things. He also correctly points out that "no school of modern economics, including the Austrian School, has an adequate theory of personal gifts" (Mueller 2010, p. 142).[21] But *Redeeming Economics* does not provide such a theory, either, nor a theory of gratuitous goods, much less pave the way for a fundamental reorientation or reform of economics. The book's basic flaw is to go after the wrong target. PostScholastic economics does not suffer from a neglect of the theories of consumption and distribution. It is true that these parts of economics are less prominent today than they once were. But they continue to play an important role.[22] Claiming otherwise eerily resembles the blatantly false Marxist claim that "bourgeois" economics could not cope with the productive function of consumption.[23] Neither is it true that the introduction of an "adequate theory of personal gifts" requires an overhaul of the realist approach of the Austrian School, as Mueller claims. The absence of such a theory is a deficiency of omission rather than of incompatibility.[24]

Mueller went after the wrong target, but then which target is the right one? *Caritas in veritate* highlights a number of issues that deserve to be thought through. Rather than explaining or criticizing the encyclical, we shall therefore build on some of its most intriguing contentions, which promise to enrich economic analysis because they can be fruitfully combined with certain elements that have already proven their fruitfulness in other areas of economics. In particular, we intend to study the ramifications of the fact that it is impossible to create a market for gratuitousness and equally impossible to establish "attitudes of gratuitousness" by the law (see Benedict XVI 2009, sec. 39). This idea will lead us most notably to identify the act of donation as an economic category of its own.

Moreover, we shall elaborate on the idea that the principle of gratuitousness can be present in normal economic activity, and especially in commercial activity (sec. 36). We shall demonstrate that normal economic activity is infused with various side-effect goods that benefit other people without the slightest compensation. And this also holds true for the market process. Saving, hoarding, investments, and commercially driven research and development of new products create significant unintended benefits for third parties. And precisely because they are unintended, or spontaneous, they are typically unrecognized. In the words of Benedict XVI (2009, sec.

34):

> *Charity in truth* places man before the astonishing experience of gift. Gratuitousness is present in our lives in many different forms, which often go unrecognized because of a purely consumerist and utilitarian view of life.

Outline

In response to Benedict XVI's challenge we shall set out to develop a general theory of gratuitous goods and to integrate it into the overall edifice of economic science.

This book is divided into three parts. In part one, we present the foundations of this theory of gratuitous goods, relying not only on the economics literature, but also on philosophical, sociological, anthropological, and theological sources. We will also study the causes and consequences of gratuitous goods, insofar as these relate to the ultimate purpose of donations, which is to make other people better off or to do some good deed for its own sake.

In part two, we turn to the proper *economics* of gratuitous goods. We will examine how gratuitous goods result from voluntary human action unhampered by any institutionalized coercion. We will first deal with the economics of donations and, in particular, with the interrelations between donations and market exchanges. This will be followed by an analysis of how unhampered human action, both within and outside the market economy, generates beneficial side effects. We will also discuss why such side effects—and with them gratuitous goods in general—have been underappreciated and neglected in the economics literature.

In part three, we will bring our analysis full circle by dropping the assumption that property rights are fully respected. This will allow us to examine the impact of government interventions on gratuitous goods—on how they are generated, in which quantities and forms, and to whose benefit. Here we shall revisit conventional topics such as the theory of public goods and the theory of the welfare state. We shall also discuss philanthro-capitalism, NGOs, and other issues related to civil society. But our special emphasis will be on highlighting the consequences of monetary interventionism, a crucial problem that has been almost completely neglected in the literature on gratuitous goods.

1A characteristic expression of this worldview is Plato's distinction between the (free) philosopher and the (menial) laborer or artisan, the *banausos* (see Plato, *Theaitetos* 175 d–e).

2See Jhering (1893, pp. 105–15). The author argues that Roman mores were undermined by the immigration of destitute Greek scholars and intellectuals, who established the practice of remuneration for artistic and intellectual work.

3At the onset of the twentieth century, Veblen ([1899] 1934, p. 36) observed that the old moral code, which denigrated labor and commercial activity, had survived through Christian times right into the heyday of capitalism: this "tradition has never died out. On the contrary, with the advance of social differentiation it has acquired the axiomatic force due to ancient and unquestioned prescription."

4Carl Menger (1871, chap. 4, sec. 2) studied the limits of markets from a microeconomic point of view and also took due notice of the influence of "exchange costs," or transaction costs, as they are called today (pp. 170–71). One limitation of the purely microeconomic approach is that it takes property rights, and the rules governing the acquisition of property, as given. But such rules are liable to change under the impact of government interventions, which may repress markets but also inflate them. We will discuss this important issue in part three.

5Similarly, in his *Lectures on Justice, Police, Revenue and Arms*, Smith ([1763] 1896, p. 172) asserts that "the division of labour must be proportioned to the extent of commerce."

6Let us quote this famous passage at some more length: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens. Even a beggar does not depend upon it entirely. The charity of well-disposed people, indeed, supplies him with the whole fund of his subsistence. But though this principle ultimately provides him with all the necessaries of life which he has occasion for, it neither does nor can provide him with them as he has occasion for them. The greater part of his occasional wants are supplied in the same manner as those of other people, by treaty, by barter, and by purchase. With the money which one man gives him he purchases food. The old clothes which another bestows upon him he exchanges for other old clothes which suit him better, or for lodging, or for food, or for money, with which he can buy either food, clothes, or lodging, as he has occasion" (Smith [1776] 1994, p. 15).

7These mentions concern the gratuitous distribution of corn in the Roman Empire (Smith [1776] 1994, p. 151) and the gift to an heir in a succession (p. 362). Similarly, there is not a single use of either word in Smith's *Theory of Moral Sentiments*, and there are only three incidental references to gratuitousness (the

gratuitous execution of contracts of commission, the obligation in Canon Law to perform gratuitous promises, and gratuitous coinage) in his *Lectures on Justice, Police, Revenue and Arms* (Smith [1763] 1896, p. 133 and p. 201, fn 2).

8 The core concept of the "annual produce of the land and labour" is first mentioned on p. lxii. For the distinction between that annual produce and its value, see pp. 368 and 376.

9 See for example Wicksteed ([1910] 1933, p. 160). In the words of Jean-Baptiste Say: "The expression Political Economy is best suited to designate the science discussed in the present book, insofar as it is not the investigation of natural wealth, or that which nature supplies us with gratuitously and without limitation, but of social wealth exclusively, which is founded on exchange and property, both of which are social institutions" (Say [1803] 1861, p. 2n). Unless otherwise noted in the list of references, all translations of French and German are our own.

10 "In agriculture too nature *labours* along with man; and though *her labour* costs no expence, its produce has its value, as well as that of the most expensive workmen. Planting and tillage frequently regulate more than they animate the active fertility of nature; and after all their labour, a great part of the *work* always remains to be done by her" (Smith [1776] 1994, pp. 393–94, our emphases). The idea that all good things somehow spring from work and the systematic refusal to make any reference to the contribution of gratuitous factors, even in rather obvious cases, can also be found in other authors of the late eighteenth century. Josef Pieper ([1948] 1995, pp. 23–24) observed that Immanuel Kant assimilated all intellectual activity to "work."

11 The opening sentence of *The Wealth of Nations* reads: "The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labour, or in what is purchased with that produce from other nations" (Smith [1776] 1994, p. lix).

12 So did Ricardo ([1817] 2004, p. 76). In Pigou ([1920] 1932, p. 28), there is one coy mention of "Nature's gifts" arguing that the latter could be exploited wastefully to satisfy present (rather than future) needs.

13 Marshall ([1890] 1920, p. 524) used the word "gratuitously" only when expressly excluding gratuitous services from the national dividend. So did Pigou ([1920] 1932, pp. 33–34, 40).

14 More so than in the work of Mises, the idea of a proper balance between market and nonmarket activities was central in the writings of Wilhelm Röpke. He also understood that an inflationary monetary system is the most nefarious cause of the disruption, and ultimately the destruction, of the natural economic order. In this respect he is an important predecessor to our own work. However, Röpke's understanding of economics was superficial and often flawed. Most notably, he endorsed the fallacious equivalence postulate (see chapter 7), which prevented him from coming to an adequate understanding of the nature, origins, and effects

of gratuitous goods.

15See in particular Lévy-Strauss ([1949] 1969) and Gregory (1982). The latter points out that Morgan's (1877) study of kinship was an important forerunner of this literature.

16He claimed, rather grotesquely, that he had brought the analysis of coercion (*contrainte*) into economic analysis. The truth is that the study of coercion has always held center stage in economics. Perroux's originality consists in bloating the definition of coercion. The meaning he attaches to this term covers not only violations of property rights, or threats of such violations, but just about any act that displeases somebody and, in fact, any obstacles to human action, including the physical characteristics of nature. For a critique of Perroux's theory see Hülsmann (1993).

17On the spectacular failure of the French health authorities in the early 1980s in dealing with donations of contaminated blood, see Morelle (1996).

18Gbedolo (2015, pp. 78–132) provides a good overview of the French-language literature.

19Laum points out that the German word *Wirtschaft* still designates both the economy and a gastronomical establishment. Similarly, the verb *schenken* (to make a gift) has a derivative, *einschenken*, which means to pour a beverage into a glass.

20Josef Pieper ([1948] 1995). Legal analysis has also produced most helpful results, especially Jean-Jacques Dupeyrou's (1955) doctoral dissertation, which laid the foundation for a comprehensive classification of gratuitous acts. However, Dupeyroux's analysis suffers from an exaggerated opposition to what he calls the subjectivist approach. This leads him to distinguish gratuitous and payable acts on the basis of the equivalent-value criterion (see chapter 7 for a discussion of the problems of this criterion).

21Similarly, Hodgson (1988, p. 161) claimed that "the utilitarian model of 'rational economic man' cannot capture the nature and function of the commitment to moral values, nor the complexities of the 'gift' relationships that is typical in this sphere."

22The theory of consumption is central to the work of Jean-Baptiste Say, whom Mueller (2010, pp. 71–72) mentions only in passing and only to assert, wrongly, that Say had no impact on the subsequent development of economic thought. The interrelations between consumption and production—namely, the productive functions of consumption—have held center stage in the modern theory of capital (see Jevons 1871, chap. 7; Böhm-Bawerk [1889] 1891; Menger 1888; Strigl [1934] 2000), as well as in the Austrian theory of the business cycle (see Mises [1912] 1980, chap. 19).

23See Gregory (1982, pp. 103–7), who refers to Marx (1857, p. 89) and Sraffa (1960, appendix D). Like Mueller, Gregory and Sraffa have blithely disregarded

the countervailing evidence.

24 Also notice that there is no such thing as Scholastic economics. The church fathers and the medieval theologians commented on various issues that are today the subject of economic science. But only one of them (Nicolas Oresme, with his *Treatise on the Alteration of Money*) produced anything resembling a systematic analysis of an economic problem. Similarly, Mueller's reading of the history of classical and neoclassical economics is highly selective and misleading. He heavily focuses on the Anglo-Saxon tradition (Smith, Ricardo, Mill, Marshall, and Keynes) and more or less completely neglects Continental economists, especially Say and Bastiat. Mueller also plays down the importance of the Austrian School, even though its approach, in tune with Scholastic realism, would have been a very appropriate starting point for his own enterprise of building economic analysis on the foundations laid by the Scholastics.

Part One

The Nature of Gratuitous Goods

1

Gratuitous Goods

It is appropriate to begin with a formal definition of our subject. So far, we have loosely referred to "gratuitous goods" as gifts and similar goods that are received *without payment*. This corresponds to the meaning of the adjective *gratuitous* that we find in standard dictionaries. A gratuitous good is *not* compensation. It is *not* received in exchange for something that the beneficiary is or has done. It is not a payment, a prize, a reward, or a tribute. It comes without any apparent good reason. It comes for free. It is gratis.

But the dictionaries also highlight a more general meaning of the word *gratuitous*. In the wider sense, it means "uncalled for." It denotes something that somebody does, or obtains, or otherwise experiences "without any good reason."[1]

This second meaning includes the first one as a special case. To wit, if I obtain a potato from a seller at a price, then I do not obtain it gratuitously but for the "good reason" that I exchange it for money. By contrast, if I obtain a potato without payment, then I seem to obtain it gratuitously, for there seems to be no good reason why I should receive it at all. In other words, goods that are obtained without payment are *prima facie* obtained without a good reason. They are gratuitous in both the narrower and the wider sense.

Now, the payment of a market price is not the only possible reason why my potato might not be gratuitous. If I had to dig it out of the ground, then it would not quite be gratuitous, either, because I would then have to "invest" my time and "spend" my labor on it. On the other hand, even if the potato was costly *for me*, it could very well be gratuitous *for others*. For example, I could give it away or others could gratuitously enjoy its smell if I cooked it. It therefore seems to be helpful to go beyond the dictionary definition and study the nature of gratuitous goods in some more detail.

We shall start with a few terminological clarifications and then examine the circumstances under which goods are provided and received "without any good reason." This will lead us to develop a general definition of gratuitous goods and to discuss their principal origins. We will conclude the chapter with a few remarks on gratuitous evil. After all, envy, lies, robbery, and various other bad things are gratuitous, too, in the sense that they also affect us without any good reason.

Providing and Receiving

We have again and again referred to gratuitous goods. But strictly speaking, there is no such thing. Gratuitousness is not a quality of things. It is a quality of *the process by which the goods that we call gratuitous goods affect their beneficiaries*. When I make a gift of flowers to my wife, then, it is not the flowers that are gratuitous, but rather my *provision* and her *reception* of them. Or, in the earlier example, the potato itself is not gratuitous, and neither is cooking, but the flavor of a cooked potato may be smelled gratuitously.

In what follows, we will continue to speak of "gratuitous goods" as a convenient shorthand. But it is important to keep in mind that this expression refers to the ways of providing and receiving goods gratuitously, not to the goods themselves.

The ways of providing and receiving goods gratuitously are different from the ways of doing so non-gratuitously, from the ways of *paying* for goods.[2] In later chapters, we will see in more detail that these ways of providing and receiving goods are often mixed up. What is more, they grow and perish together. But this does not alter the fact that the difference between them is a binary opposition, as in right-left, up-down, more-less. Just as the direction "right" can only be understood in opposition to the direction "left," gratuitousness in the way of providing or receiving a good can only be appreciated in contrast to the fact that goods may also be provided and received at a price.

Indeed, if it were *not* possible to pay for any good whatsoever, it would be meaningless to speak of gratuitousness. For example, it would make no sense to assert that rocks benefit from gratuitous sunshine. Rocks cannot receive light in any other manner. They are unable to choose. Only beings who have the ability to choose are able to pay and receive a price. Only in reference to such beings would it make sense to point out that some goods are provided and received gratuitously.

We see here that the gratuitous ways of providing and receiving

necessarily have a personal or subjective dimension. Only acting persons can, properly speaking, provide or receive anything. It also follows that all gratuitous things are either good or bad. There are gratuitous goods and there are gratuitous evils, but there is no gratuitous middle ground that nobody cares for or has to be concerned about.

Prices to Pay

A gratuitous thing, action, or experience comes without any good reason. However, the absence of a good reason does *not* mean that there is absolutely no reason at all. Fine weather and friendly greetings from complete strangers are gratuitous goods, but they do not come without reason. They do have various causes. They do relate to other things, and they are the result of circumstances that bring them about. *All* things and *all* living creatures have causes. *All* choices and *all* human actions have causes. There is nothing in heaven and on earth without a cause. Carl Menger said as much in the famous opening sentence of his *Principles of Economics*. God may suspend the laws of nature, but man cannot. God may create abundance by a sheer act of His will, but humans cannot. No benefit of any kind just pops up by miracle or by decree. Nothing is or could be gratuitous in the sense that it is without cause.

This brings proper emphasis to our definition. To be gratuitous means to have no *good* reason. As we have seen, this means, in general, to not pay a price. If someone pays a price for a good, then that good is not gratuitous *for him*, whereas it would be gratuitous for those who benefit from it without having paid, or at least without having paid full price.

Now, paying a price must be understood in a larger sense. It covers both market payments and opportunity costs. Both arise in a context of scarcity. Human beings have the wondrous ability of imagination. They can fathom a future different from the present, and this creates a tension between what they would like to do and what they can do. Economists call this tension *scarcity*. What people can do is limited by the means that they control. But the available stock of some goods is *insufficient* to do all the things that people would like to do with them. These goods are scarce. They are *economic* goods.[3]

Typically, human energy is scarce; money is scarce; drinking water, food, and arable land are scarce. And so are the man-made instruments of labor. Whether a good is scarce or not depends on whether its quantity is sufficient to do all the things that a given person would like to do with that good, as well as on the context. Dinner would no longer be a good if it were served during sleeping hours. It might also cease to be an *economic* good at

the end of an eight-hour banquet.

Whenever goods are scarce for someone, this someone has to choose how best to use them. And whatever his choice may be, and whatever he achieves, the choice always involves some sort of renunciation. There is always some good that he has to forgo. The time spent on work cannot be spent in family meetings and vice versa. Water used for cleaning becomes undrinkable. The personal value of these forgone goods is *the decision-maker's opportunity cost* of choice.

Opportunity costs are "good reasons" of the sort that we mentioned before. Goods that come with opportunity costs are therefore *not* gratuitous. They are costly for those who have to bear these opportunity costs. They have to be obtained at a price, even though the beneficiary does not pay this price by giving up something tangible that he previously owned but by renouncing some good that he could have enjoyed if he had acted differently.

Below we shall see how economic goods may be gratuitously provided and received. Here we need to stress that all economic goods have opportunity costs when they are *used*. Likewise, they entail opportunity costs (and often monetary costs as well) when they are *produced*.

Production means to bring a good into existence. This occurs most notably through the transformation of physical matter with the objective of creating a new shape that has more value than the previous shape. For example, flour, milk, and eggs may be transformed into a cake; steel and rubber may be transformed into a wheel. But production is not limited to the physical transformation of factors of production into consumer goods. Selling, buying, threatening, stealing, caring, etc., are acts of production, too. In a wider sense, *all* human actions are acts of production. They all seek to attain ends that would be unattainable without the action. They alter reality in such a way as to render it more valuable to the acting person.

Because all human actions involve opportunity costs, goods can be received gratuitously *only* to the extent that the beneficiary himself does not *act* to receive them. But all the production and use of all economic goods comes with opportunity costs. This is the meaning of the proverb "There is no such thing as a free lunch." Fine weather is a gratuitous good because it comes at no price. Minerals in the ground and oxygen in the air are gratuitous goods for everybody, whereas steel bars and bottled oxygen are not gratuitous for the people who have produced them. True love and true friendship are gratuitous goods by definition; indeed, if we could do something to produce them, they would no longer be true love and true friendship.

Free Lunches

Whereas all lunches are paid for by someone, not all lunches are received by people who pay for them. If James pays Mike to paint James's house, then the renovated house might be enjoyed by all passers-by. Their joy would not be bought at any monetary cost, since they have not made any contribution toward the cost of the paint job. Neither is any opportunity cost involved, either, because they are just "passing by." The sight of the beautiful house comes as a fringe benefit. They did not walk to the house *in order to* have a look at it. That would have involved an opportunity cost.

The same thing would also hold true if James had painted his house all by himself. Even if he had not spent any money (making the brushes, the paint, and the ladder all by himself) nor made any barter exchange, James would still have paid a price for the paint job in the larger sense of having spent his own time on it. While painting his house, he could not be with family or friends, in worship, nor in the market earning money. He has to forgo these other benefits. By contrast, all other people who happen to walk by the house and enjoy seeing it in its renovated glory would benefit gratuitously. Their joy would not come at a personal expense, even in the basic form of an opportunity cost. It would come in the form of a side effect of James's renovation activities.

A more straightforward way of providing gratuitous goods to others is in the form of gifts. Dinner served at the family table is gratuitous for the children, not for the parents. James could have painted the house of his parents or of some friends without asking them for any payment. He would have incurred the monetary and opportunity costs, but the beneficiaries would have obtained a gratuitous economic good.

Economic goods such as dinners and paint jobs are especially interesting for the theory of gratuitous goods, because only such economic goods can be gratuitously transferred by one person to another. Indeed, as we have seen, only economic goods are known, under human control, and scarce. If a good were not known to us, we obviously could not provide it to anybody else. If we did not control it, we could neither use it nor provide it to any other person. If it were not scarce, there would be no point in doing anything whatsoever to benefit from that good.

While economic goods can be gratuitously provided to others, nobody can provide gratuitous goods to himself. As we have seen, any such provision to oneself would be an act of production, and production comes at an opportunity cost. As soon as a person employs any means to bring a desired good into existence, it is no longer a gratuitous good for him.

Similarly, while only *economic* goods can be gratuitously *provided* through deliberate choice and action, all goods can be gratuitously *received*. The love of God is not an economic good, but all mankind receives it gratuitously. Sunshine and the oxygen in our atmosphere are not economic goods, yet we all receive them gratuitously.

Gratuitousness and Justice

Let us now consider more closely the consequences of social relations for gratuitous goods. All social relations exist within a *normative context*.

Wherever two persons interact, they do so on the basis of claims and obligations that frame their relations. This concerns even those persons who do not wish to be involved in any social setting at all. Such persons, too, have a claim on others; namely, the claim to be left alone, and there is a corresponding obligation for these others to leave them alone (see Bolick 2004, chap. 7). But the normative context especially concerns all situations of conviviality inside and outside of the division of labor, where traffic rules, house rules, statutes (of condominiums, clubs, and companies), customs, and legislation come into play.

Norms concern human action. They concern persons, not things. Colloquially we say that Mr. Jones has a "claim on his house." But upon closer inspection, this phrase turns out to be a shorthand expression for the more convoluted "he has a claim on other persons to act in such a way as to respect his tangible property, including his house." Indeed, the pleading or presenting of claims can take place only between rational beings who have the capacity to choose. A claim needs to be addressed to other persons, to rely on the moral relations between the claimant and the addressee, and to demand action in one way or another. A claim is always a claim on the actions of other persons.[4]

As the owner of a house, Mr. Jones has a claim on all other persons to respect his property. By contrast, there can be no effective claim on any inanimate object, such as the house, since the latter is incapable of deliberate choice and action.

Claims and obligations can be *just* when they are grounded in intelligible fact, so that dialogue and legal arguments may help each person to his due. This is the case, for example, when claims and obligations have been agreed upon in the contract between a buyer and a seller. They are unjust when they are arbitrary; that is, when they are not grounded in any intelligible fact. The state of affairs that prevails when just norms are respected is called *justice* (see Kinsella 2023, pp. 300, 359).

Wherever human action in a social context is concerned, there is a good reason to do or to receive something when it is just; that is, when we are *obliged* to do or receive this something. Similarly, there is a good reason to do or to receive something whenever we are *entitled* to this effect. Accordingly, a *gratuitous* good deed is an action that is carried out without obligation or entitlement; a gratuitous benefit is one that we receive without entitlement and without obligation to the benefactor.

These considerations lead us to a general definition of gratuitousness: *Gratuitous is what is provided or received beyond the demands of justice.* This definition can be applied beyond the social context. It is precisely because we have no claims on anyone to provide us with the things that we find in a state of nature (minerals in the ground, oxygen in the air, virgin land, etc.) that we gratuitously receive all these things. We receive them gratuitously *to the extent that* they are in their state of nature, whereas we obtain them for a good reason (by incurring a cost) to the extent that we have "mixed our labor" with them, as in the production of steel bars, bottled drinks, and arable land. Similarly, since we have no obligation toward anyone to preserve things that we find in their state of nature, we may transform all such things without infringing on the claims of any other person.

To sum up, gratuitous are all those things and deeds that we do, experience, and receive beyond the demands of justice. Gratuitousness in this sense is not removed from the inexorable causal nexus. All things and all acts have causes; but they do not always have "good reasons" and in this sense may be gratuitous. Above we have stated that fine weather is a gratuitous good because we do not produce it ourselves. Not only do we not produce the weather, but we also have no other reasons to claim good weather from anybody. Therefore, fine weather is a gratuitous good, just like minerals in the ground and the oxygen in the air. A birthday present from a distant acquaintance is a gratuitous economic good, since the receiver is not entitled to it and the giver is not obliged to give it. The victim of a mugger is subject to gratuitous violence, since he is not obliged to suffer this violence nor is the perpetrator entitled to inflict it. True love and true friendship are gratuitous goods, because they cannot be claimed from anybody and cannot be owed.

Private Property and Gratuitous Goods

How does our definition of gratuitousness accord with the preceding discussion of market prices and opportunity costs? We observed that economic goods can be gratuitously provided or received to the extent that

their production and use do not involve market payments and opportunity costs. Then, we argued that economic goods can be gratuitously provided or received to the extent that such transfers are not made in fulfillment of any moral claims or obligations. Are these two different criteria for distinguishing gratuitous goods? If not, how do they relate to one another?

Causes of Claims and Obligations

The connection is that acts of production are particular *causes* of claims and obligations. Above we used John Locke's phrase "mixing one's labor" to express this fact. By mixing our labor with things in a state of nature, we create property rights in these things.[5] In other words, acts of production do not merely physically transform the factors of production into products. They also create a relation between the producer and his product, a property relation, along with claims and obligations that are grounded in this relationship.

When Smith fabricates a felt hat, he thereby creates a claim against all other persons to respect his property relation with the hat, by virtue of the very fact that *he* has transformed felt and other materials into the hat. And for the same reason, all others have the obligation to respect his claim. They did nothing to produce the hat and therefore do not have any claim on Smith to share the hat. When the latter keeps the hat, unhampered by others, he therefore does not keep it gratuitously but for a good reason. In fact, all producers enjoy their products for the perfectly good reason that without their own activity, the products would not have come to exist in the first place. Smith therefore has a claim on all others to leave him alone. And these others do not gratuitously leave him alone and let him keep the hat but rather do so because they have the obligation to do so.

Although acts of production are especially important sources of claims and obligations, they are not the only ones. Economic analysis heavily focuses on market exchange, based on contracts, and the very point of such contracts is to create claims and obligations for buyers and sellers. Thus, when Smith sells his hat to Brown for ten dollars, new claims and obligations spring into existence. Through his contract with Smith, Brown acquires a claim on others to respect his new property relation toward the hat and he becomes obliged toward Smith for the payment of ten dollars. Smith acquires a claim on Brown's payment and becomes obliged to hand over the hat. When Smith hands the hat over to Brown, he therefore does not act gratuitously, but in fulfillment of his obligation and of Brown's claim. And neither are the ten dollars which Smith receives from Brown a gratuitous good but rather a payment obtained in fulfillment of Brown's

obligation and of Smith's claim.

Contracts and statutory law (legislated law) are the most important sources of man-made norms. Whereas they will hold center stage in the present book, we should note that not all claims and obligations are man made. Some are independent of human will. Some go back to religious faith or custom, while still others are hardwired into the logic of action. Let us walk through a few illustrations.6

Not All Claims and Obligations Are Man Made

We have seen that when Smith produces a hat, his hat-related claims on others do not result from any contract or convention with these others. They spring from his act of production. For the same reason, third parties are obliged to respect Smith's property relation to the hat, even though they might not have any contractual engagement with him. One might argue that these claims and obligations are man made in the sense that they are rooted in Smith's act of production. One might even argue that Smith produced the hat because he knew this would bring about corresponding claims and obligations. But this does not alter the fact that these claims and obligations do not spring from contracts between Smith and others but from Smith's act of production. In this sense, they are not man made.

Another important example is the principle of priority, or the principle of homesteading, according to which the *first* person to transform a previously unowned good thereby acquires a stronger property relation to this good than anybody else (see Hoppe [1987] 2005, pp. 99ff.; Kinsella 2003, pp. 228f.).The principle of homesteading applies in particular to one's own mind and body. Each human being owns his mind and his body. He owns them in the visceral sense that he alone is able to move his muscles and use his mind. He also owns them in the sense that he has a priority moral claim on others to respect this control and not hamper it. These claims and obligations are not man made. They spring from human nature (naturalistic explanation) or from the divine act of creation (theological explanation). Next consider claims and obligations resulting from dependence relations (see Aquinas [1259–65] 2009, bk. 2, chap. 28). If God not only is the *creator* of heaven and earth, but also *incessantly keeps them in existence*, then all humans should be thankful and honor Him, even if they cannot bring themselves to love Him. For analogous reasons, each human should also honor the dignity and liberty of all other humans, because all have been created—and all are sustained in existence at each moment—by the Almighty. And for analogous reasons, too, each child is obliged to honor his parents, without whom he would not exist. In other

words, he does not honor his parents gratuitously, but out of obligation.

Other claims and obligations are rooted in the logic of language and argumentation. The obligation to speak truthfully is not a matter of convention or contract but enshrined in the very nature of what it means to *speak* to others. Speaking is not the same thing as making noises or jokes. Nobody has a claim on hearing the truth from a jester, for example. But those who promise to be frank do have the obligation to be truthful. And those who are asked to speak the truth have the obligation to speak up or shut up, unless the question itself is uttered under threat. None of this is a matter of convention. It is rooted in the logic of language (see Grice 1989; Hieber 2017).

For similar reasons, the moral claim on personal liberty, or self-determination, cannot only be justified by the religious conviction that man has been created by God in His image. It is also vindicated by the principle of self-ownership[7] and upheld by the logic of argumentation. Indeed, whoever makes truth claims of any sort engages in argumentation with other human beings, and such argumentation *presupposes* that the property rights of these others are respected (see Dun [1983] 2008; Hoppe [1987] 2008, [1993] 2006). Persons engaged in an argument may or may not agree on what they are discussing. But each of them has to acknowledge that the other is a legitimate self-owner—an owner of his mind, his vocal cords, his body. Without such a preliminary acknowledgment, which can be explicit or implicit, neither could possibly agree or disagree with the other on anything. Notice the implications. Any sort of argumentation involves a mutual recognition of self-ownership and, therefore, of the principle of private-property rights. It is therefore impossible to argue against the legitimacy of private-property rights, or to refute the self-ownership of each person and the claims and obligations that spring from it, *without falling into self-contradiction.* The right to own oneself therefore exists independently of any human convention. It is not man made.

Contracts, Private-Property Rights, and Gratuitous Goods

Historically, the importance of man-made claims and obligations has constantly increased, both in the form of contractual claims and obligations as well as in the form of statutory laws (the latter especially after the French Revolution). The rise of contracts was based on the simultaneous emergence and growth of private-property rights. Indeed, contracts presuppose such private-property rights. If it is not clear what I own, and do not own, then it is impossible to transfer ownership.[8]

The principal driving force of this movement has been the realization

that the distinction between mine and thine is a powerful way to pacify social relations. Where property rights are absent or ambiguous, conflicts are inevitable.[9] The very purpose of private property is to enable different people to pursue different goals simultaneously and peacefully. This especially concerns conflicting goals—seeking the same appointment, the same client order, the same award.

Private property defines the limits within which each individual can pursue his own personal projects independently, and also compete with others if he so wishes, and within which he can freely share economic goods with others. Property owners can team up with others for charitable purposes, for games and fun, or for business.

But private-property rights are not only the indispensable precondition for market competition. They are also, and equally crucially, the indispensable precondition for gratuitous goods.

As we have seen, gratuitous are all those things and deeds that we do, experience, and receive outside of the demands of justice. In other words, gratuitous are only those things and deeds that we receive in excess of what we may legitimately claim. *The only context in which gratuitous goods can exist*, therefore, is a *context of limited moral claims and obligations*. I can give gratuitously only if I am able to give something *beyond* what I have to give, which in turn presupposes the existence of a "beyond." If a person had unlimited moral claims on all the goods in the world, then this person could never receive any gratuitous benefit whatsoever. Everything that he could ever receive would be his from the outset. Similarly, if a person had unlimited moral obligations to provide goods to other people, then these others could never receive anything gratuitous from him. Everything that they would ever obtain would be theirs from the very beginning.

Now, the very point of private-property rights is to establish the limits of claims and obligations. The word "private" indicates that the owner of a material good has the right to withhold it from others, at least to some extent.[10] While the good itself may very well *exist* gratuitously and while it might gratuitously provide various services, property rights make the enjoyment of these gratuitous benefits contingent on the decisions of the good's owner. He may decide to deny others control of the good or deprive them of its benefits, at least to some extent. The claims of these others are then limited, and the property owner's obligations toward them are limited, too.

Private-property rights must therefore not be thought of as being in opposition to gratuitous goods. Quite to the contrary, these rights deliver the existential context within which a good may be provided or received

gratuitously. Gratuitous goods are rooted in private-property rights. If there are no boundaries to moral claims and obligations, then there can be no such thing as a gratuitous good. The growth of private-property rights has therefore gone hand in hand with the growth of gratuitous goods. The blossoming of contractual relations has made possible gratuitousness in all its forms.

This fundamental fact has not escaped the attention of those who have studied the nature of gifts. Aquinas (1948, I, q. 38, art. 1) wrote: "The word 'gift' imports an aptitude for being given. And what is given has an aptitude or relation both to the giver and to that to which it is given. For it would not be given by anyone, unless it was his to give; and it is given to someone to be his."[11] Similarly, Bernhard Laum (1960, p. 21) opened his discussion of liberality by stating: "Giving implies transferring property. Only he who owns property is able to give." And Marcel Mauss, the famous modern theoretician of gifts, observed that the rise of property rights and market exchange went hand in hand with the rise of gifts (see Mauss [1925] 2002, p. 61).

However, we shall see that private-property rights not only are fundamental to *gifts* but are fundamental to *all* forms of gratuitous goods, most notably the beneficial side effects of human action that we shall discuss in chapter 6.

Antagonism between Private Property and Gratuitous Goods

Our contention that private-property rights provide an existential context for gratuitous goods may be astonishing. A counterargument is readily available: Private property means that one man deprives another man of things that, ultimately, neither of them has brought into existence. Without the institution of private property, both would have access to all the gratuitous resources of the world. Private property reserves this access to gratuitous resources to one group of people, the owners, at the expense of the nonowners. Therefore, the owners alone are the beneficiaries of this state of affairs. Property rights provide *them* with the tranquil possession and enjoyment of gratuitous goods, while the others are deprived of them.[12] It is true that in a private-property social order, gifts and other gratuitous goods become possible. But all in all, this hardly seems to be an advantage. Is it not rather cynical to argue that private property makes it possible for the haves to "donate" some crumbs to the have-nots? Private property makes *this kind* of gratuitousness possible, to be sure, but at the price of destroying the fundamental gratuitousness of nature.

This objection warrants several rejoinders that will be presented

throughout the present book. Let us start off by highlighting the tragedy of the commons, as well as the difference between the gratuitous *existence* and the gratuitous *availability* of natural resources.

The privatization of goods must be seen in the context of the so-called tragedy of the commons. Scarce resources that are freely accessible to everybody tend to be underproduced and overused. The overuse is most obvious in the case of depletable resources, such as minerals. In the absence of private property, each user would find himself in a race to the bottom against all other users. Each would try to secure as much as possible of the limited resource for himself, thus accelerating its depletion and destroying the gratuitous availability of this good in record time. A similar problem arises in the case of common-pool resources, such as pastures, lakes, streams, and forests, especially in the context of a growing economy. It makes a great difference whether a pond is used by five, fifty, or five hundred users or whether there are five, fifty, or five hundred cows on a ten-acre meadow.

One reason why common-pool resources have been privatized in the past is that their gratuitous services were rapidly dwindling and even disappearing.[13] When ten farmers jointly use the pastures around their village, none of them has a material incentive to invest any time and money in the maintenance of the grassland or to manage the size of his herd. But as the meadow turns into mud and soiled grass, and more and more new farmers arrive who also wish to use it, the farmers are likely to consider privatizing the land. For example, they might start to restrict its use by outsiders and set house rules for themselves. They might divide the land among themselves or sell it to one person. In each and every one of these cases, the farmers would be privatizing the land, not necessarily in any formal legal sense, but in the economic sense of withholding it from nonowners. The latter would thereby be denied the services of the common-pool resource, to be sure, but the point is precisely that these services would otherwise dwindle by the day in terms of quantity and quality. With private property come responsibility and incentives to explore, find, transform, and preserve natural resources (see Block 2019).

This brings us to a second consideration. It is true that natural resources are gratuitous insofar as they *exist* quite independently of any human endeavor. But hardly any of them are gratuitous in the sense of being spontaneously available to just about any human being. To obtain minerals that are buried deep in the ground or under the sea it is necessary to make considerable investments of time and savings, none of which is likely to occur without the incentives that spring from private property.[14]

It is therefore wrong to construe an inherent antagonism between private property and gratuitous goods. As we have seen, private-property rights provide an existential context within which gratuitous goods may emerge. The apparent contradiction between private property and gratuitous goods is resolved once it is appreciated that the macroeconomic effects of private property (resources become available) are different from the microeconomic ones (resources are withheld).

Private property is not only the indispensable foundation of a large-scale and complex division of labor.[15] The free development of for-profit production, within the strict boundaries of private-property rights, is also an important condition for the progress of gratuitous goods in all their forms. The mechanisms of this development are the core subject of the present book and will be analyzed in the following chapters.

Private-Property Rights Are Historically Contingent

The prevalence of social orders based on private-property rights is not a brute fact of nature such as gravity or bad weather. It is very much the result of deliberate human action.[16] It is true that such an order is in conformity with human reason and that in this sense it might be called a *natural* social order. But this does not alter the fact that its existence is *historically contingent*. No law of nature has brought about private-property orders. Private property is a fragile cultural achievement (Mises [1949] 1998, pt. 8).[17] It can be realized if human beings act with the moral resolve to respect private property even though nonrespect might benefit them materially, especially in the short run. And a private-property order can only be maintained if this moral commitment is constantly renewed, which in the long run is only possible if that order is understood and loved.

The Origins of Gratuitous Economic Goods

We have just seen that gratuitous goods depend on the presence of limited claims and obligations—on the existence of private-property rights. Let us now examine the material conditions under which they can come into being a bit more closely. Based on our discussion so far, and in the light of our definition of gratuitous goods, it appears that the latter can have two broad types of material origins; namely, nature and human action.[18]

Oxygen, sunshine, and many other features of man's natural environment do not depend on human action, and fortunately so. They immediately serve some of the most important human needs, without

necessitating any conscious effort to bring them into or keep them in existence. They are "free goods" (Marshall [1890] 1920) or "general conditions of human welfare" (Mises [1949] 1998).

To serve human needs, other goods require human effort. Minerals in the ground have to be mined, the salts of the seas must be harvested, fish have to be caught, wild animals must be hunted down. But all these goods *exist* gratuitously. They are freely available to be enjoyed, to be taken, to be preserved, to be consumed, and also to be loved and admired.

Human action, too, is a source of gratuitous goods. It is this source that will hold center stage in the present book. Human action brings about gratuitous goods through a whole variety of mechanisms, not all of which are well understood, even by many professional economists. In short, gratuitous goods result from human action both intentionally and unintentionally. The intentional gratuitous goods, most notably gifts, are the best known and best understood. But unintentional gratuitous goods are just as important, and possibly even more so.

In the remainder of this chapter, we will briefly review the immediate origins of gratuitous goods. In subsequent chapters they will be discussed in more detail.

Nature

The most abundant source of gratuitous economic goods is man's natural environment. Our natural environment is not man made. In many areas of the world, the tiny uppermost crust of the planet has been transformed by human labor, but it was not man who created it. It was there for him to transform. It was there gratuitously. Man had no claim to possess and transform the material world, and the material world itself could not have any obligation toward man.

Human beings acquire claims on parts of their natural environment in various ways, most notably through homesteading, production, gifts, and exchange.[19] As we have seen, such claims (and the corresponding obligations) are not claims against Mother Nature herself, or against her divine creator, but claims against *other human beings*. By homesteading a previously ownerless piece of land, for example, a man does not strictly speaking come to acquire a claim on that land, even though this is how we express his claim in colloquial language and even though lawyers often speak and think in those terms. Rather, a man acquires a claim against other human beings based on his priority in transforming this part of nature.

All such claims are limited. They are valid only *to some extent*. The

farmer transforms land, which gives him a claim to the fruits of that land *inasmuch as* his labor has brought those fruits about. He has not himself created the land nor the forces of nature that bring forth the fruit, and therefore the fruit is to some extent a gratuitous good. However, this gratuitous part may be inextricably mixed up with the part that he owns, and therefore nobody else can claim that land nor its fruit. The owner of the land may therefore effectively have a claim to all its fruits, even though he contributed to them only partially.[20] Private-property rights are desirable for the owner precisely because they convey to him these gratuitous goods.

The gratuitous services flowing from nature do not only benefit *agri*culture, but *all* culture. In particular, they also benefit manufacturing and other industrial activities. Ricardo rightly criticized Smith for limiting the benefits of nature to agriculture. Here is what he wrote as a rejoinder:

> Does nature nothing for man in manufactures? Are the powers of wind and water, which move our machinery, and assist navigation, nothing? The pressure of the atmosphere and the elasticity of steam, which enable us to work the most stupendous engines—are they not the gifts of nature? to say nothing of the effects of the matter of heat in softening and melting metals, of the decomposition of the atmosphere in the process of dyeing and fermentation. There is not a manufacture which can be mentioned, in which nature does not give her assistance to man, and give it too, generously and gratuitously. (Ricardo [1817] 2004, p. 76)

Similar considerations pertain to innate personal talents and abilities (see Marshall [1890] 1920, pp. 577–79, 664). The abilities with which we are born—both the ordinary abilities of walking, digesting food, talking, seeing, hearing, learning, etc., and the extraordinary abilities of great artists, athletes, leaders, scholars, and so on—are gifts of nature. In the words of Ludwig von Mises:

> The quantity and the quality of labor which an individual is fitted to deliver is determined by his innate and acquired characteristics. The innate abilities cannot be altered by any purposeful conduct. They are the individual's heritage with which his ancestors have endowed him on the day of his birth. He can bestow care upon these gifts and cultivate his talents,

> he can keep them from prematurely withering away; but he can never cross the boundaries which nature has drawn to his forces and abilities. (Mises [1949] 1998, p. 619)

We do not have a claim against anyone to possess our talents and abilities, nor has anyone else the obligation to provide his own abilities to us. Therefore, inasmuch as whatever we do or achieve results from the exercise of our will (from our labor) *and* from our innate talents, the part that is imputable to the latter is a free gift of nature. And we come to own this gratuitous part because it is inextricably mixed up with the part that we control through our will.

Finally, the laws of nature themselves are gratuitous goods. Man is utterly dependent on the existence of constant relationships between cause and effect. All exercise of human reason is based on this premise (see Mises 1962, chaps. 1, 4, pp. 19–21). Without it, there could be no logic and no experience. If eating wheat were to nourish us on one day yet poison us on another, if walking moved us toward our destination today but away from it tomorrow, if the same word meant one thing now and the opposite in the next sentence, if objects randomly jumped rather than continually moved through space, then we could not successfully choose and act at all. Man has no claim against anyone to bring about any constant relationship between cause and effect or to keep it in existence. And yet, fortunately, such relationships exist in great abundance, ready for us to discover, contemplate, understand, love, admire, and use to our benefit.

Human Action

Our paramount objective is to come to understand the extent to which, in Benedict XVI's words, the "principle of gratuitousness" is present in "normal economic activity." How and to what extent can the actions of households, associations, firms, and governments provide gratuitous economic goods to other persons? What immediate and more remote causes come into play?

Most fundamentally, the faculty to act is itself gratuitously available to each person. A person's ability to act results only partially from his own past choices and deeds. He is self-made, but only to an extent. Much of his personality, his talents, abilities, interests, and aspirations, are the natural endowment that he receives at birth for free. It does not matter for our present purposes whether he ultimately receives his natural endowment from God (theological explanation) or from Mother Nature alone (naturalistic explanation). In any case, he receives it for free.

Moreover, consider that human action is stretched out in time. None of this time—no year, no day, no second—is of our own making. Time is a general condition of welfare, a free good of such fundamental importance that all other goods depend on it, but it is not an *economic* good and not even a good in the Mengerian sense. Rather, human action is an economic good with a temporal dimension. Time cannot be owned or held in reserve.[21] Time must be seized and filled, one way or another. It can be filled with leisure and contemplation, with holy rituals, with games and pastimes. It can be used to provide services to others, to produce material goods. Every second of time is like a gratuitous increment of revenue that we are free to use as we wish but which we cannot keep for ourselves. If time were a gift—as it would be if God exists—then it would be a truly divine gift.

Furthermore, all the information received through the senses comes free. Information is an important good. Learning through observation, contemplation, and communication with others is the most powerful way to receive this good. Observing the behavior of other human beings and of animals often provides crucial clues for the solution of practical problems. Even if the observer does not grasp the relevant causal mechanisms, observation reveals to him that such and such is the case or can be the case. The study of anthills and termite hills inspired the conception of natural ventilation systems for human buildings. Spider webs inspired roof designs for stadiums and other large buildings. Birds inspired airplanes. To be sure, learning involves opportunity costs. But the information and insights derived from observation are gratuitous to the extent that they come from outside of the observer.[22]

Accordingly, the most basic education focuses on observation and communication skills—watching, listening, talking, reading, writing—without which these gratuitous goods could not be received. They enable man to learn from the experiences and thoughts of others, by and large for free.

Some activities are pursued for their own sake, while others serve a different purpose. The former are activities to which we *devote* ourselves; they form the realm of *leisure*. The latter activities are commonly called labor.[23] An analogous distinction can be made in regard to material economic goods. They, too, may be consumed for their own sake, or they may be used in the pursuit of other goals. For example, a football may be used in a game among friends (an end in itself) or in a professional tournament, where it might just be a means to earn money.

Economic goods can be gratuitously provided to other persons (gifts),

through deliberate or intentional acts (gift giving). This intentional form of gratuitousness has been practiced from time immemorial, all over the world, in all ethnic groups, regardless of age, sex, income, and wealth. Gift giving is one of the most distinctive features of human existence.

The extent of gift giving depends most notably on the *ability* to make gifts; that is, on donor income and donor wealth. In the past two hundred years, income and wealth have reached unheard-of levels all over the world, but especially in the Western world. Accordingly, gift giving has grown. But it has been transformed as well. Present-day gift giving is still to a very large extent a personal affair, bonding individual donors and beneficiaries. But there is also organized gift giving, and the charitable organizations that facilitate it have grown to an unprecedented size. We shall deal with these issues in more detail below.

Moreover, economic goods may also be gratuitously received from others even though nobody had intended to provide them or to provide them gratuitously. The distinction between intentional and unintentional effects of human action is of fundamental importance in economic analysis. Without it, it is impossible to understand the working of a market economy and the impact of government interventions. It is our contention that the same distinction is also necessary to understand the origin of certain types of gratuitous goods. The latter can be "the result of human action, but not of human design" in Adam Ferguson's felicitous phrase (quoted in Hayek 1973, p. 20). This form of gratuitousness may be called spontaneous gratuitousness. As far as we can see, it has been neglected in the economic literature and merits the special attention of today's economists.[24]

A Motive of Human Action

Human action does not only *generate* gratuitous goods in the form of gifts and beneficial side effects. It is also very much *motivated* by the desire to obtain and to provide economic goods gratuitously. But here we face an asymmetry. Although the desire to *donate* one's own wealth to others is rare and requires the virtue of liberality, the desire to *receive* goods without payment is virtually unlimited. The wish to "get free stuff " pervades all times and places, all economic sectors, all ages, and all social backgrounds. The very selfishness for which the market economy is often chided is, at bottom, a universal quest to obtain goods for free.

Ludwig von Mises ([1949] 1998, p. 13) characterized the essential driving motive of human action as the eagerness "to substitute a more

satisfactory state of affairs for a less satisfactory." Clearly, this is the case for all those who wish to get something for nothing. But who is really able to pay *nothing*? Beggars and welfare beneficiaries come to mind. Criminals, too: the robber, the mugger, the thief, the quack, the spy, and so many others at least *try* to get something for nothing, even though their calculus is often wrong. Similar motivations also prompt human beings to seek gratuitous goods by dissociating desirable activities from some of their unwelcome natural effects. Heavy drinkers imbibe pills to get rid of headaches, couples use contraceptives, pharmaceutical companies reject liability for some of their products.

But the desire to obtain something for nothing does not just concern particular cases of human action. In a way, it is present in any and all human activities, even when it is not possible to obtain something for free. For who would *not rather* have it for free, if he had the choice? Who would not rather eat his cake *and* have it, too? The fact is that next to all human activities are driven by the desire to obtain something more for something less—and ideally something for nothing. This quest has sometimes been called the economic principle.

It is manifest in the privatization of natural resources. We have already stressed the aggregate advantages of a private-property order. However, privatization is typically not at all motivated by such overall advantages. The privatizers typically just think of themselves. They want to control, now and forever, all the gratuitous services that spring from resources.

Technological progress is another typical example. The whole point of technology is to get more output out of a given input of human time and natural resources. The utopia of technology is the *perpetuum mobile*, the engine that gives something for nothing, all the time.

And the same motive, in one form or another, drives *all* human activities, inside and outside of market economies. The entire division of labor can be interpreted as a systematic effort to extract a greater output from a given input. The wish to obtain something for nothing is an extreme —radical, utopian—form of this pervasive desire.

This wish is not quite as utopian as it seems. The purpose of the present book is to explore its boundaries.

Observations on Gratuitous Evil

Most writings on gratuitousness are exclusively concerned with the gratuitousness of *goods*: with noneconomic spiritual goods such as truth and love and with economic goods such as cars, houses, and cell phones

inasmuch they are provided or obtained without payment. However, it is important to keep in mind the wider meaning of gratuitousness. There are not only gratuitous *goods*, but also various gratuitous *evils*—evil acts or evil experiences, such as gratuitous violence, gratuitous insults, or gratuitous suffering. A complete analysis cannot neglect gratuitous evils, especially when it comes to practical matters and public policy. Therefore, even though we shall mostly focus on gratuitous *goods*, we shall here and there digress and also discuss the dark side of gratuitousness.

To be evil means to be harmful or at least to tend to cause harm. Similarly, evil acts and evil personal character traits are harmful to other persons. If such acts are committed intentionally and habitually, the person who commits them is evil in the strongest sense of the word. He is then profoundly immoral and wicked.

To some extent the meaning of *evil* overlaps with the meaning of *bad*. A bad man is just as morally reprehensible as an evil man, and an evil smell is quite as unpleasant as bad news. The difference between the two is that the word "bad" is also used to connote a *state of imperfection*, as in bad movie, bad manuscript, bad grammar, bad health, or bad husband. By contrast, the word "evil" is more narrowly used to denote things or persons or acts that are *active agents* of harm, even though they might not be imperfect as such. For example, a cancer cell is an evil, even though the cell as such might be a perfect and fully developed specimen of all that a cancer cell can be. And a demon can be a nearly perfect spiritual being. What makes him evil is the corruption of his will.

Since we are especially interested in knowing the *causes* of gratuitous goods and gratuitous evils, it is most convenient to focus on evil things, evil deeds, and evil persons—in the sense of agents of harm—and to deal with badness—in the sense of imperfection— only incidentally. Moreover, the grammatical advantage of the word "evil," in the English language, at any rate, is that it connotes both a quality and a substance.

Only Actions Can Be Gratuitously Evil

A thing is evil from the point of view of a person if it produces a deterioration in the present state of affairs or if it hampers the improvement of that state of affairs.

It would seem that bad *things* cannot be *gratuitously* evil. Bad weather occurs all over the world, but any weather is what it is for perfectly good reasons which are commonly called the laws of nature. In the case of weather, these laws are rather complex and difficult to understand, but this does not alter the fact that they exist. However, no human being has any

moral claims on the weather, and the weather, being inanimate, has no moral obligations toward any man. The weather can therefore be bad, but not evil.

Things would be different only if we assumed that the weather is the result of the deliberate choice of a moral being. In that case it could be that the being in question is morally obliged to produce good weather but fails to comply for no good reason. Only then could the weather be gratuitously bad, just as any other job can be done in a gratuitously bad way. By contrast, if all meteorological conditions were determined only and exclusively by inexorable laws of nature, then there could not be anything that one could qualify as gratuitously bad weather, which is why, in the English language, the word "evil" is altogether avoided in this and similar contexts.

The word "evil" more narrowly describes an agent, something that brings about a deterioration of the current state of affairs, such as a virus, a cancer cell, a demon, or a robber. However, viruses and cancer cells do not make choices. They do not intend anything. They do not act in the narrow sense of the word. Their activity is entirely determined by laws of nature. Only *moral* agents (persons) endowed with free will—God, angels, demons, human beings—act. Only *their* actions, and the results of their actions, can therefore be gratuitous evils.

An action is *gratuitously* evil if it occurs without any good reason. And the good reasons are given, most notably, in the claims and obligations of the persons involved. Person A inflicts gratuitous evil on person B, therefore, if A does X despite being obliged *not* to do it, or, in other words, because A does X even though B had a claim on A not to do X. Robbery is a case in point. The robber inflicts gratuitous evil on his victim. He is obliged not to invade the property of the victim, and the victim has a claim on the robber to respect the victim's property.

Asymmetry between Gratuitous Goods and Gratuitous Evils

We see here that gratuitous evils can be defined in analogy to gratuitous goods. Gratuitous evils exist only within a context of claims and obligations. But we should also notice the asymmetry between the two cases: Gratuitous evils are suffered when these claims and obligations are *violated* without any good reason. They are violations of the demands of justice. By contrast, gratuitous *goods* are obtained only while scrupulously respecting the claims and obligations of all parties involved.

All goods that a person receives without having any claim to receive them are gratuitous goods for that person. However, if someone receives

goods in violation of existing claims and obligations, then his gratuitous gain is mirrored by a gratuitous loss on the part of others. The victim of a robbery suffers gratuitous evil. He had the right to keep his property, but it was taken from him without any good reason. What is more, the robbery saps the very foundation of gratuitous goods; namely, property rights. The robber's gain is therefore categorically different from gratuitous goods such as donations or fine weather. It is not a gratuitous good but loot.

Figure 1: Asymmetry between Gratuitous Goods and Gratuitous Evils

	Claims and obligations are respected	Claims and obligations are violated
Goods obtained	Goods and gratuitous goods	Loot
Evils suffered	Evils	Gratuitous evils

By contrast, the evils that we suffer while all claims and obligations are respected are evils, but not *gratuitous* evils (see Figure 1). This is most notably the case of things that are *entirely* subject to the laws of nature. Things that are in no way influenced by the deliberate choices of moral agents can be gratuitous goods, but they cannot be gratuitous evils. Nobody has a moral claim to enjoy fine weather. Therefore, fine weather is always a gratuitous good. But by the same token, bad weather is *not* a gratuitous evil. It is an evil, but not a gratuitous one.

1Standard dictionaries (*Merriam-Webster's Collegiate Dictionary*, *The Oxford English Dictionary*) explain the two meanings in juxtaposition to one another. They explain that the etymological roots of the word go back to the Latin adjectives *gratuitus* (done without pay, spontaneous, voluntary) and *gratus* (pleasing, agreeable), as well as to the Latin noun *gratia* (favor). See also Aquinas ([1259–65] 2009, bk. 3, chap. 150). According to etymonline.com, as of the 1650s, *gratuitous* was used in the sense of "freely bestowed" and the sense of "uncalled for, done without good reason" was first recorded in the 1690s.

2In German, the opposite of gratuitous is *entgeltlich*. In French, it is *onéreux*. But in the English language, there does not seem to be any good antonym for the word *gratuitous*. Some dictionaries propose the word *onerous*—signifying something that is burdensome or arduous or trying—but this is not what we are looking for.

After all, even a gratuitous good may very well be onerous. For example, Aunt Nancy may invite you to spend an evening with her at the theater. You do not want to see the play and would prefer to stay home, but you accept the invitation because you do not want to hurt her feelings. In this case, the play is gratuitous *and* burdensome for you at the same time. Now, Kinsella (2023, p. 221) mentions that section 1909–10 of the Louisiana Civil Code distinguishes between gratuitous and onerous contracts. This is indeed the difference that we have in mind, but this connotation of the word "onerous" seems to be a historical peculiarity of Louisiana law. Therefore, we will simply refer to non-gratuitous goods, which is not elegant but has the advantage of clarity.

3Carl Menger ([1871] 1976, p. 52) defined *goods* as known and controllable (ownable) causes of the satisfaction of human needs. *Economic* goods have the additional characteristic of being scarce (see pp. 100ff.). In the present work, we will use Menger's conception of economic goods, but define goods as causes of the satisfaction of human needs, even if these causes are not known or controllable.

4Notice that this is a wider definition of norms than the standard legal one, which focuses on *enforceable* claims and obligations. Moral obligations most notably include *legal* obligations; and moral rights or entitlements include *legal* rights. See Reinach ([1913] 1984, pp. 12–13).

5See Locke ([1689] 1993, p. 128); Rothbard ([1982] 1998, pp. 34 ff.); Hoppe ([1987] 2005, chap. 4; [1993] 2006); Kinsella (2023, pp. 224–28). For a doctrinal overview, see Brocker (1992, especially chap. 4). See also Reinach (1913); Hülsmann (2004); Massin (2016). According to Horvath (1929), quoted in Pieper ([1931] 2004), Aquinas also argued that property could be acquired only through labor.

6A systematic exposition of the different types of norms and the distinction between them can be found in Hayek (1973, chaps. 5 and 6, as well as pp. 81ff. and 493ff.). See also Leoni (1962), van Dun (2013), and Benson ([1990] 2011, chap. 2). Norms need to be seen in the more general context of justice; see Pieper ([1972] 1992).

7On the principle of self-ownership see Locke ([1689] 1993, p. 128); Wojtyla ([1960] 1981, pp. 24, 97); Rothbard ([1982] 1998, pp. 31–32).

8The following two paragraphs have been adapted from Hülsmann (2021).

9See Frank van Dun's (2017) masterful study of the four archetypal causes of conflict and the corresponding archetypal solutions. The four causes of conflict are (1) the presence of more than one agent, (2) scarce economic goods, (3) disagreement over the use of economic goods, and (4) unrestricted access to economic goods. These causes of conflict are *individually necessary* and *jointly sufficient*. The corresponding archetypal solutions are to be found in social organizations (conflict 1), value-based communities (conflict 3), and private property (conflict 4). Only for the second cause of conflict (scarcity) is there no

archetypal solution, apart from the wishful thinking that we find in social utopias.

10The exact extent to which a material good is privately owned depends most notably on the limits of the *appropriation* of unowned nature through human action. See our discussion on pp. 51ff.

11Aquinas made this statement while discussing the question of whether the word *gift* is a personal name of the Holy Spirit, which he affirms.

12Adam Smith ([1759] 1853, chap. 3) famously stressed the central importance of the "usual and natural tranquillity" that comes with ownership. "Happiness consists in tranquillity and enjoyment."

13We are aware that other motivations have played a role in privatization as well. For example, land grabbing has a venerable tradition (see, for example, Sumner 1913, pp. 31–65; Higgs 2005) and thrives today, most notably under the umbrella of asset-forfeiture laws and the doctrine of eminent domain (overviews in Knepper, McDonald, Sanchez, and Pohl 2020; Kim, Lee, and Somin 2017). Our point is not to vindicate any and all forms of privatization, but to highlight the fact that privatization can be—and more often than not is—just and useful for all parties involved.

14This is equally crucial to the *moral* assessment of private property (see Rhonheimer 2018, 2021). Pope Francis has recently emphasized the traditional Catholic principle of the preeminence of the "common destination of all goods" over the principle of private property (see his encyclical *Tutti fratelli*, 2020). As we have just seen, private property is the most important human institution to make all goods available to mankind. See the discussion in Naudet (2020, epilogue).

15Or, in the words of Carl Menger ([1871] 1976, p. 97): "Property, therefore, like human economy, is not an arbitrary invention but rather the only practically possible solution of the problem that is, in the nature of things, imposed upon us by the disparity between the requirements for, and available quantities of, all economic goods."

16Animals, too, defend their territories. Ardrey (1967) therefore argues that private-property orders have evolved out of brute nature. However, the crucial aspect of private-property orders is not the will to control (which humans share with animals), but the acceptance of rules governing the acquisition of new property.

17Acemoglu and Robinson (2019) have argued similarly, though largely on the basis of anecdotal considerations.

18From a Christian perspective, all natural phenomena ultimately result from divine providence. Ultimately, it is God who makes oxygen, minerals, hurricanes, and good weather. Ultimately, it is He who keeps them in existence. Ultimately, therefore, *all* manifestations of gratuitousness are rooted in the actions of some person, be the person divine, angelic, or human. In our present study we are

focusing on *human* actions.

19For a detailed analysis, see Rothbard ([1982] 1998) and Hoppe (1993). Man also comes to control goods by violence, but he cannot acquire *legitimate claims* on goods by violence. The reason is that any attempt to justify violence (and claims based on violence) involves a self-contradiction. See pp. 42ff.

20Marshall ([1890] 1920, p. 55) defines the free gifts of nature as follows: "Those goods are *free*, which are not appropriated and are afforded by Nature without requiring the effort of man. The land in its original state was a free gift of nature." And he says that privately owned natural resources such as oyster beds are "still free gifts from the point of view of the nation" (p. 56).

21This is one of the reasons why the idea of an "allocation of time" *à la* Gary Becker (1965) is problematic.

22Josef Pieper (1998, p. 32; 1992, pp. 25–26) highlights that all human understanding relies on two distinct powers, the active *ratio* and the receptive *intellectus*. The latter enables human beings to learn gratuitously. In Pieper's words: "The medievals distinguished between the intellect as *ratio* and the intellect as *intellectus*. *Ratio* is the power of discursive thought, of searching and researching, abstracting, refining, and concluding [cf. Latin *dis-currere*, to run to and fro], whereas *intellectus* refers to the ability of "simply looking" (*simplex intuitus*), to which the truth presents itself as a landscape presents itself to the eye. The spiritual knowing power of the human mind, as the ancients understood it, is really two things in one: *ratio* and *intellectus*, all knowing involves both. The path of discursive reasoning is accompanied and penetrated by the *intellectus*' untiring vision, which is not active but passive, or better, *receptive*—a receptively operating power of the intellect."

23The distinction between leisure and labor is a fundamental distinction in economic analysis (see Mises [1949] 1998; Rothbard [1962] 1993). It is not an empirical distinction, though the ratio of leisure to labor is contingent. See the more detailed discussion on pp. 148ff.

24The concept of spontaneous gratuitousness mirrors the concept of a spontaneous *social order* (Hayek 1973, p. 2). According to Hayek, the distinction between spontaneous orders (*cosmos*) and deliberately designed social orders, or organizations (*taxis*), is fundamental in modern social philosophy (chap. 2). It goes back to the sixteenth-century Salamanca school and was more fully developed in the eighteenth and nineteenth centuries by Mandeville, Hume, Smith, Ferguson, Burke, Savigny, Wilhelm von Humboldt, and Carl Menger (p. 22).

2

The Nature of Donations

Donations are the best-known gratuitous goods. Most everybody receives and makes them on a regular basis. Children receive the love and care of their parents, grand-parents, and other relatives. The handicapped, the elderly, and the hapless stranger receive gratuitous assistance. Almost everyone receives birthday presents. And almost everyone has wished other people a good day or a good night.

Statisticians have come up with different ways to measure donations. The most widespread metrics are "donations of money," "volunteering," and "helping a stranger." Donations of money can be measured in absolute amounts and compared to gross domestic product (GDP) and various measures of overall monetary wealth. By contrast, it is much more difficult to measure the time spent volunteering and helping strangers. Therefore, more often than not, statisticians measure *participation* in each of these activities. They ask a representative sample of the population of a country whether in the previous year they have donated money *at all*; that is, irrespective of the amount. The percentage of positive responses indicates how much that country participated in the activity of "donating money." The same method is applied to measure participation in the other two activities.

Following this participation methodology, the US-based Charities Aid Foundation publishes the World Giving Index, which is based on data from Gallup's World Poll and covers, in the 2020 edition, 114 countries and 90 percent of the world population. The annual index ranks these countries in each of the three categories of charitable activities and also provides an overall ranking, calculated as the average of the three participation rates. In 2020, the most generous country by that measure was Indonesia, with an average participation rate of 69 percent, followed by Kenya (58 percent) and Nigeria (52 percent). Further down the list were

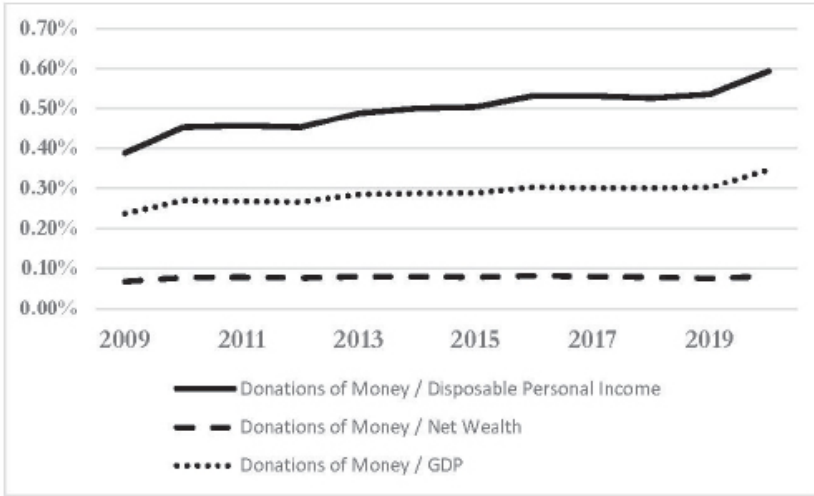
the United States (rank 19, 43 percent) and the United Kingdom (rank 22, 41 percent). Even further down were Austria (rank 62, 34 percent), Germany (rank 85, 30 percent), France (rank 106, 25 percent), and Italy (rank 111, 22 percent).

The distinct advantage of the participation methodology is that it allows the comparison of different countries despite their enormous differences in income and wealth. It would not make much sense to rank countries by the absolute dollar amounts that their populations donate. Poorer countries are by definition unable to match the richer ones.

However, the participation methodology also carries a considerable disadvantage: the data quality is extremely weak. Whether people volunteer for one hour, one day, one week, or one month does not show up in the participation rate. The one-hour volunteer counts as much as the one-month volunteer. And the same thing holds true for the other categories. A one-dollar donation in the US counts as much as a ten-dollar donation in Zimbabwe (and in the US, for that matter).

This is why it is often advisable to measure donations of money in absolute dollar amounts. To be sure, this precludes meaningful comparisons between different countries. On the other hand, it becomes possible to quantitatively compare the different *purposes* of donations. And it also becomes possible to accurately measure the *evolution* of generosity over time. For example, Figure 2 shows the evolution of monetary donations in Germany as a percentage of disposable personal income, household net wealth, and GDP.

FIGURE 2: MONETARY GIVING IN GERMANY, 2009—20



Sources: DZI Spenden-Almanach 2021; Statistisches Bundesamt; Bundesbank; calculations by the author.

Now, although the statistical assessment of donations is a most valuable source of information, it is no substitute for rigorous theoretical analysis. Statistics cost money. They therefore tend to focus on things that are easy to measure. But as we have seen, the measures are not always significant or of good quality. Nor are they necessarily helpful for grasping the *relevant causal relationships*. Our purpose in this book is to come to an understanding of the causes and consequences of gratuitous goods. Accordingly, in what follows, we shall take a long and hard look at the theory of donations and then discuss some of the statistical material in later parts of the book.

Donations have been covered in countless monographs, hand-books, dictionaries, and stand-alone articles.1 We shall not tackle all the themes in the literature nor its merits and deficiencies. Our paramount objective is to understand the relation between donations and the market economy, which we shall discuss in chapter 5. In the present chapter, we will study the *nature* of donations. We will argue that donations have four characteristic features: (1) they are devoted to some cause or person different from the donor himself; (2) they come with no strings attached; (3) they result from free choices within the limits of private-property rights; and (4) they sacrifice personal time or savings.2 Let us now discuss these features in more detail.

Devotion

Genuine donations are made out of devotion to a purpose that transcends the donor's own gratification. They are selfless. They are not made for the donor's sake, but for something or someone else. Devotion prompts the donor to dedicate (a part of) his resources to something or someone else. He dedicates (a part of) his life to piety, to a science, to an art, to the pursuit of beauty or justice, etc. Devotion may also drive him to be attentive to a person or a group of persons, to cater to their needs and well-being with various gifts of time and money.

The proper motivation of devotion—its only motivation, as it were—is the donor's love of something or someone other than himself. This does not mean that the donor does not love himself, too. It means that he also loves something or someone else, in the sense of asserting the goodness of the loved one (Pieper [1972] 1992, pp. 38–39).

Devotion can be disorderly because its driving force—love—can be disorderly. "For since there is only one true kind of devotion, while there are many false and vain, if you do not know which is the true, you may deceive yourself, and waste your time in following some kind of devotion which is useless and superstitious" (Sales ([1609] 1891, p. 1). The greater and purer the love, the more thorough and productive is the devotion, which "is nothing else but a certain spiritual lightness and vivacity, by means of which charity operates in us, or we by it, with alacrity and affection" (ibid., p. 2).

Proportionality

Here we are not concerned with the limitations and pitfalls of devotion. We do not praise it nor belittle it, nor compare it to the pros and cons of selfishness. But we need to highlight two things about devotion which are relevant for the economics of gratuitous goods. The first is that genuine devotion exists, even though in its pure form it may be only rare and fleeting. The second is that to the extent that human actions are motivated by devotion, they entail different consequences than human actions driven by selfish motives.

Devotion justifies "unreasonable" costs. Devotion alone justifies genuine sacrifice.[3] When human beings act in the pursuit of any other objective, the means are always *proportioned* to their specific end. Firms spend only as much money as they can hope to make through an expenditure. The time and effort needed to train for a job must be worthwhile in terms of the expected revenue. Even in activities that are pursued for their own sake yet

without any transcendental objective—the pleasure of dance, food, drink, sexual intercourse, games, and so on—the means are always proportioned to the result.

By contrast, when devotion comes into play, the result is secondary. The means are sacrificed. They are not compared to the result, not proportioned to it. More often than not, it is outright impossible, and sometimes absurd, to even attempt to proportion the means to their end. Indeed, what could it mean to use proportionate means in the pursuit of truth, justice, and beauty? Could any means ever be proportional to the love of a loved one? How could any human means ever be proportional to the glory of God?

This is not to say that human beings make sacrifices without consideration of their own economic circumstances. Donations definitely do have such an economic dimension, and we shall argue that they are therefore subject to economic law. But economic analysis must also be mindful of the particularities of its subject matter. If economists wish to explain the causes and consequences of human action, they have to acknowledge that some human ends require genuine sacrifice and that human beings are able to make such sacrifices.

The primordial *theoretical* significance of this fact will become clearer as we move on. Its practical importance does not need to be demonstrated. From the mist of ancient times to the present day, genuine devotion has always been held in great esteem, especially lifelong and complete devotion by specialists. Except in periods of decline, humanity has always protected priesthood, purity, and marriage. It has always prized single-minded warriors, artists, and scholars. Lifelong and complete devotion has been the quintessential *res extra commercium*. Language carries this heritage to the present day; for example, when we say that someone "consecrates" his time to an art or to a science.

Leisure

Time and material wealth may be committed to creating temples, churches, holy vessels, and holy habits. Time may be consecrated to contemplation, study, artistic creation, and religious worship. Such time is not "used" as a means. It is not meant to "serve" the acting person. This is most obvious in the case in which the activity is an end in itself and the agent enters the picture as a performer—as in the enactment of music, dance, song, and holy rituals.

Philosophers use the word "leisure" when referring to time thus devoted (Pieper [1948] 1995; Samaras 2017). One reason why donations of time are so poorly dealt with in the economic literature is that economists have

defined the very word "leisure" in a way that brushes over this distinctive finality. Rather than sticking with the definition the philosophers use, the economic concept of leisure designates all activities that are not labor; that is, which do not aim at earning revenue.[4] This conception of leisure has deep etymological roots: leisure (*otium*) is the binary opposite of commerce or business (*negotium*). This meaning is also broad enough to include the leisure of the philosophers while also including a variety of other activities. When economists talk about people enjoying leisure, they mean that people are enjoying a consumers' good (see, for example, Mises [1949] 1998, pp. 131–32; Rothbard [1962] 1993, chap. 1, sec. 8). The leisure of economics connotes a state of idleness, involving inertia, distraction, and laziness.[5]

By contrast, leisure in the philosophical sense, although definitely not labor, is the very opposite of idleness. And it is also the opposite of consumption for self-gratification. Leisure is time used selflessly; that is, without the expectation of any personal benefit or revenue.[6] Leisure activities in this sense are donations of time to a good cause. They are not gifts. Their intended beneficiaries are not other human beings. It is true that humans might benefit from such acts, and this is in fact likely. A beautiful cathedral will probably be an enjoyment for passersby and for the attendants of the religious ceremonies held inside. But such human joys are not the *ultimate end* when erecting the cathedral. The sole intended beneficiary is God. Similarly, many people might benefit from scientific discovery, and they might relish beautiful literature, music, opera, sculptures, and paintings. Yet the truly passionate researcher, writer, composer, sculptor, or painter gives no thought to these pleasures of others nor to his own. He might be an intellectual as defined by Julien Benda. He might be a creative genius as described by Ludwig von Mises. In any case, he is in love with a holy cause that transcends his own person and to which he dedicates large parts of his life, in some cases his entire life.[7]

It is true that such activities are an important source of gratuitous economic goods both for the person who undertakes them and for other people, within and outside of markets. But such benefits are obtained as an *unintended* consequence of acts of devotion. We shall study this crucial issue in more detail in chapter 6.

Gifts

Gifts differ from leisure in that they are oriented to other persons. Material gifts also involve a transfer of property, in which respect they are somewhat similar to market exchanges. John may devote his life to making Anna happy without ever making a gift to her. Inversely, he may present

her with a lot of gifts without being any further devoted to her happiness. John Mueller claims: "The difference between a gift and an exchange is that in exchange, the persons who are the ultimate ends or purposes of those involved in the exchange do not coincide, but the means they have chosen to pursue their respective ends do" (Mueller 2010, p. 144). But this is not true. The ultimate ends of the persons involved in a gift relationship do not necessarily coincide.

From the legal point of view, a gift is a voluntary and unilateral transfer of an economic good from one person to another in which both parties agree on the gratuitous nature of the transfer.[8] In the case of a service, the donor agrees to provide the service (or to have the service provided) to the beneficiary and the latter agrees to receive it. Neither receives any compensation. In the case of a tangible good, the donor agrees to abandon his property rights in favor of the beneficiary and the latter agrees to receive them as a gift, both without compensation.

It is useful to distinguish three forms of gifts: (1) relational donations in the form of time spent with other persons; (2) material gifts intended as relational gifts; and (3) material gifts to improve the material condition of the beneficiary.[9] Let us present them in a bit more detail.

Some needs are relational in such a way that they can only be satisfied through personal gifts. A child needs the love of his parents, not only to survive, but also to nourish in him love, hope, and self-confidence, as well as many other mental dispositions and values on which he can build his life. The parents therefore have to give him much of their time and efforts. They must also try to be models that the child can emulate. Affluent families can purchase various educational services. They can hire babysitters and governesses, send their children to boarding schools, and pay for their university tuition. But they cannot purchase love, and they cannot purchase time. They must give their own time in order to nourish the child. Nothing can replace the gift of this personal relation and effort in the development of the young person.

These things do not change much when children become adults. To be happy and to keep growing in mind and body, all human beings need the love of friends and family. No money, no tool, and no machine can replace the time spent among friends. Jim cannot hire someone else to spend time with Joe in the hope that this will nourish the friendship between Jim and Joe. Similarly, nobody can pray in Jim's place. To become a friend of God, and to remain in this friendship, it is necessary that Jim spend his own time praying to the Almighty.

Other relational needs can be satisfied to some extent with the help of

material gifts. Wedding rings, Christmas presents, and birthday presents are material goods, but more often than not, they do not respond to any material need; at any rate, they do *not only* respond to material needs. They are relational gifts meant to be a tangible expression of the donor's love for the donee. As we have seen, Laum (1960) argues that meals have always had such a social function and were usually provided by a host (see our discussion on pp. 19–20).

Still other needs are not relational and therefore do not entail the gift of personal time. Material economic goods often fall into this category: food, clean water, clean air, clean clothes, means of transport, and many other things. These goods can be obtained both through exchange and as gifts. Material gifts can be useful remedies for two sorts of problems: (1) the prospective beneficiary cannot afford the good in question and (2) he does not understand that he needs the good.

The Hobbes Fallacy

All human actions are driven by intentions, and these are always someone's intentions or motivations. A donor's actions are driven by *his own* intentions. According to a widespread misunderstanding, this precludes the possibility of his gift's being a true free gift.

Whatever the donor does, the argument goes, he pursues his own intentions. Whatever he does, he does it ultimately for himself, even if others might also benefit from his action. This is not a matter of psychological attitude, but of praxeological necessity. The donor acts. He is driven by his own intentions. All of his actions are therefore selfish. In fact, fundamentally, it makes no sense to distinguish between selfish and unselfish actions, because all of them are driven by the same self. Accordingly, a person is compensated whenever he succeeds in doing what he set out to do. If he gives money to a beggar, or a smile to a stranger, he does not act without reward, but always in pursuit of his own personal goals. It therefore seems to follow that his action cannot be gratuitous, at least not completely so, even though he might wish or imagine it to be otherwise. After all there is always a "good reason" why he acted in this way rather than another.

Thomas Hobbes seems to have been the first modern author to state this idea, and he did so with admirable succinctness and clarity: "For no man giveth, but with intention of Good to himself" (Hobbes [1651] 1904, chap. 15, p. 103). In his honor, we will therefore call this proposition the Hobbes fallacy.[10]

Indeed, a fallacy it is, for it confuses the *driving force* of human action

with its objectives or *finality*. From the fact that my actions are *driven by* my intentions and that my actions *demonstrate* my preferences (efficient cause) it does not follow that my intentions *aim at* myself (final cause). Wishing my action to succeed is not the same thing as seeking a reward for myself. When Peter donates money gratuitously to Paul, he wishes to increase the cash balance of the latter. His intention concerns Paul, not himself. Peter's own person comes into play only because he realizes that Paul would not have much money unless he, Peter, gave him some. If another person made a donation beforehand, Peter might not act at all.[11]

The line separating gifts from non-gifts runs along *intentions*, not along observable behavior. Donating money and smiling at strangers is not *per se* selfish, nor is it *per se* gratuitous. It all depends on the underlying intentions. The characteristic feature of donations is the focus on the other rather than on oneself. This focus is absent when people donate money and smile at strangers only for selfish reasons. Such donors want to feel better about themselves, increase their standing in the eyes of bystanders, or be admitted into the country club, or into heaven, among various motives. Their actions might still be meritorious and gratuitous, but they are not genuine gifts.

The Fallacy of Autistic Exchange

The distinction between the efficient and final causes of human action has yet to make it into economic literature. Without it, there is little hope that economists will come to grips with the nature, causes, and consequences of donations. Unfortunately, even the great Mises failed to make this distinction, and his understanding of donations therefore has a surprisingly Maussian bent. Indeed, Mises argued that, in the act of gift giving, the donor performs an exchange with himself, an "autistic exchange." In his words:

> Making one-sided presents without the aim of being rewarded by any conduct on the part of the receiver or of third persons is autistic exchange. The donor acquires the satisfaction which the better condition of the receiver gives to him. The receiver gets the present as a God-sent gift. (Mises [1949] 1998, p. 196) [12]

This interpretation of gifts is idiosyncratic and manifestly inaccurate.[13] It is wrong to state that the donor "acquires" something as a consequence of his donation. The truth is that as a consequence of his donation, there

prevails a different state of affairs and that the donor *prefers* this state of affairs to the one that would have prevailed without his donation. Using the word "acquires" insinuates that the donor himself, as a consequence of his donation, receives something that becomes his property. But this is clearly not the case. And Mises also insinuates that a donor always and everywhere gives *in order to* acquire some benefit for himself, which is also not true.[14]

Mises clearly grapples with the fact that the donation expresses the preferences of the donor. But as we have argued, this does not mean that a donation always and everywhere *aims at* satisfying the donor himself. The difficulty disappears with the distinction between efficient and final causes. While all human actions result from individual choices and preferences, or efficient causes, the actions may pursue entirely different objectives, or finalities.

Gratuitousness

Donations are characterized by their selfless objective, or finality. They may serve a noble cause or a donee, but not the donor himself. This is why a truly liberal donation is one that comes not only without any reciprocity or payment of any sort, but also without any preconditions.

Conditionality

In the case of gifts, it may be nevertheless necessary to specify conditions under which the beneficiary may obtain or use the gift. This is most notably the case when the beneficiary does not have full legal accountability, as in the case of minors, senile persons, or the mentally ill. Conditionality may be especially advisable when the *immediate* beneficiary is a fiduciary; that is, a person distinct from the *ultimate* beneficiary. In such cases the donor might legitimately try to temporarily restrict the beneficiary's freedom of action, to make sure that the gifts serve their objective.[15] In doing this, the donor does not exact a payment or some other form of reciprocity. The conditionality aims to ensure that the gift truly serves the beneficiary.

Giving under conditions is very important in the case of large donations and also in the case of inheritances. Such are genuine if the donor receives nothing in return. Whenever a donor wishes to control how his donation is used or if the conditions placed on a gift have the effect of providing reciprocal services to the donor, then such donations are either grants or payments, not gratuitous goods.

Preparedness

Conditionality may also come in a more subtle form. Very often it is necessary that the donee make various efforts and preparations in order to really receive what he has been given. Reading a love letter is not possible without understanding language and meaning. Love letters require an effort of courtesy and tact on the part of the addressee to grasp subtleties of meaning (see Steiner 1989, pp. 147–50). More generally speaking, all forms of gratuitous social interaction—participating in a conversation, sharing a meal—presuppose some preparation in order to properly receive the gratuitous elements. Much of human education aims at preparing children to receive all those goods that come free. In order to learn from the wisdom of authors, it is necessary to master their language and to read them attentively. For fellowship and friendship to be strengthened by the sharing of a meal, it is necessary to respect mealtimes, cater to the needs of the others, and follow the conversation.

Consent and Gifts

In the case of gifts, it is important that the donee accept the gift in order to preclude the possibility that it is not a gift at all but a nuisance. The donee needs to do something. At the very least, he must somehow express his agreement. "May it be done to me according to your word" (Lk 1:38).

There are no foolproof ways to ascertain the consent of the donee. Indeed, even if the beneficiary declares that he accepts the gift, it cannot be concluded with certainty that he truly cherishes the gift as such. He might, for example, accept it only in order not to offend the donor. By the same token, if a donee is incapable of *declaring* his acceptance of a gift, it is not certain that he does not accept it. Szpindor Watson (2015, p. 188) gives the example of a husband in a coma. He needs his wife to make life-and-death decisions on his behalf. Even though the husband cannot personally accept any gifts—for example, gratuitous medical care—she can accept them as his legal representative. Similar considerations apply when parents act on behalf of infants, toddlers, and older children.[16] We are here not concerned with the rather juridical question of what "counts as" a genuine acceptance. Our point is merely that a gift, to be a gift at all, must be accepted by the donee or his legal representative.

This seems to be unproblematic. However, it is important not to fall into a materialistic trap when interpreting the gift. The beneficiary does not benefit because someone else is willing to gratuitously provide something to

him. He benefits because he considers this thing to be an economic good, such that *he prefers* to receive rather than forgo it. It is well known that gifts can be rejected, and that some gifts should be rejected. The Trojans were not somehow impelled or obliged to accept the Greeks' wooden horse. The Trojans took it because they believed they would be better off owning the horse—erroneously, as it turned out.

In other words, what makes something a gift is not its objective suitability as such nor its uses (its "use value"), nor the fact that other people find it desirable (its "exchange value" or market price), but the fact that the prospective beneficiary himself finds it desirable and therefore agrees to receive it. He gratuitously receives the object proposed to be given to him, be it a service or be it the property rights to a commodity. But what makes him a true beneficiary, and what makes the object a gift, is the *personal value* of the gift. By agreeing to accept it, the beneficiary demonstrates his preference for accepting the gift, rather than forgoing it. He demonstrates that he thinks himself to be better off, thanks to the gift, than he would otherwise have been.

As we have seen, the donor may benefit as well; for example, by enjoying a feeling of satisfaction. However, any such benefits would have to result indirectly and unintentionally from his deed. As we have seen, a true donor does not make a gift *in order to* benefit from it himself. But this does not preclude his benefitting from it indirectly. Quite to the contrary, this is exactly what we should expect in such cases. If Peter gives a five-dollar bill to Paul, a beggar, Peter thereby demonstrates that he prefers that the beggar own the banknote. If this wish materializes, then it may very well be the case, and it is even likely to be the case, that Peter will feel happy because the world is now a better place according to his criteria. But as long as Peter does not deliberately act in pursuit of such feelings of personal happiness, his gift is pure and uninterested.

Grants

In pure acts of devotion, the love of the transcending cause is the *only* motivation that prompts the use of time and material resources. Such acts are fully gratuitous. The agent does not expect anything in return. But perfect and relentless devotion is rare. In most cases, the agent *also* aims at benefits for himself. In some cases, he is *only* concerned with himself, even though he pretends to be devoted to something else. Following Kenneth Boulding (1973), we shall use the word "grant" to refer to self-interested donations.

Think of a researcher who only studies and publishes in order to attain

full professorship or membership in the National Academy of Sciences. Think of an author who deliberately writes in such a way as to maximize his book sales. Think of comedians who just want to spend a fun time with cool friends. Think of an atheistic church architect or of a lukewarm prelate setting out for a church career. The world is full of people who are *professionals* in religion, arts, and sciences—that is, who see these activities as sources of revenue and personal gratification rather than as vocations that are to be cultivated for their own sake. Such people seek a return for themselves rather than the advancement of religion, art, or science *as such*.17

These remarks are not intended as a moral criticism of self-interested activities. There is nothing morally wrong about pursuing one's own interests, provided that the means employed are legitimate. Indeed, "other things being equal, each thing loves itself more than another, and a sign of this is that the nearer a thing is to one-self the more it is naturally loved" (Aquinas [1259–65] 2009, bk. 1, chap. 102). Self-interest is not only natural and legitimate, but a most powerful driving force of improvements of all kinds. He who cares for his own business first and foremost is not necessarily at odds with the welfare of other people. As Smith famously stated: "By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it." And he adds: "I have never known much good done by those who affected to trade for the public good" (Smith [1776] 1994, p. 485).

We will have the opportunity to study the beneficial side effects of self-interested behavior in some detail in chapter 6. In chapter 3, we will also duly underscore the damage that can be wrought by donors who wish to do good but who do so without the proper motivation, instruction, and circumspection. But here our purpose is different. Here we need to highlight the difference between donations and grants.

In the case of a pure donation, the object of devotion is the only concern of the donor. In the case of a pure grant, there is no consideration of devotion at all. And then there are mixed forms— imperfect donations, imperfect grants—in which the donor intends to benefit both the object of his devotion and himself. The perfect donation is a pure sacrifice, whereas imperfect donations also serve the personal ends of the donor. They represent to some extent acts of consumption or of investment.

For example, when I spend an evening with my wife watching a romantic movie that I thoroughly dislike only to be a good companion, this is close to a perfect gift. By contrast, when I buy my wife a ticket for a soccer match that I would like her to watch with me, the gift is *imperfect* in that even if she likes soccer, her happiness is not the only end of my action.

Let us spin the example further. Suppose I knew my wife dislikes soccer and I bought her a ticket nevertheless, thinking she would come with me anyway because she likes to spend time with me even under unpleasant circumstances. That purchase would not be a gift to her but consumer spending for my own pleasure only. It is true that she would receive the ticket gratuitously, but it would be a pure grant, rather than an imperfect gift.

Similarly, suppose Jim does not like to have his drinks alone. He invites Tom and pays for his drinks. Tom then receives drinks gratuitously but not as a gift. From Jim's point of view, the drinks are a payment for companionship. It might very well be the case that Tom likes hanging out in the bar anyway and thoroughly appreciates both the drinks and talking to Jim. But that is not fundamentally different from all other cases in which an employee likes his job.

Or suppose I am taking part in a writers' contest and running against a very talented rival. I know that he has a computer game addiction. If I anonymously send him his favorite game in the mail in the hope that he will spend his time playing rather than writing, then, clearly, I have not made a genuine gift to him. His happiness would in this case not count at all. It would be merely a means for the attainment of my personal ends.

Other examples come readily to mind. Weapons are often given to the enemies of one's enemies. People might make donations toward the beautification of the city where they live in the hope that their business will benefit from the improvements. Childless uncles and aunts might subsidize their nephews' education not out of love, but in the hope that the nephews will gratefully remember them when they reach retirement age.

In short, whenever a donation is self-interested to the point that it ultimately serves *only* the objectives of the donor and the beneficiary is merely a means for the attainment of the ends of the donor, then this donation is not a gift at all, but a pure grant. It is the would-be donor's personal consumer or investment expenditure.

Let us briefly compare investments and grants in order to highlight this point. Both have the objective of providing benefits to the person who makes them. The main difference is that grants provide *gratuitous* goods to some immediate beneficiaries, whereas investments typically do not. A grant may be made without stipulating any tit for tat (for example, supplying weapons to the enemies of one's enemies), whereas an investment is a purchase of goods that serves the investor's immediate (not ultimate) purposes. A market economy is an "outlay economy" insofar as investors renounce immediate gratification when they pursue long-run goals. Such

outlays fulfill a crucial social function. They provide present revenue to suppliers and employees and relieve them of a significant part of the investment risks. But such outlays are not gifts, and usually they are not even grants.[18]

In the real world, the relative importance of grants as compared to gifts depends most notably on the legal, monetary, and fiscal framework. In the long run, this framework is likely to produce distinct national cultures of giving. Some twenty years ago, Karen Wright (2001) highlighted that grants were the predominant form of giving in the US, whereas gifts were the predominant form in the UK. Wright proposed that scholars think of this difference as reflecting the difference between generosity and altruism. In the US, people were generous (and are still so today), but their donations were intended to be completely selfless less frequently than in the UK.

Justice

We have already seen that private-property rights and donations are intimately related. To be gratuitous, a donation must be made outside of any context of claims and obligations. When Mark becomes the owner of an orange because he *bought* it from Ralph, he has a good reason to receive this orange from Ralph. He therefore does not receive it gratuitously, and Ralph does not gratuitously hand it over to Mark. By contrast, if there is no such contract between them and Ralph nevertheless hands the orange over to Mark, Ralph makes a gift. Mark receives the orange gratuitously precisely because he had no right to receive it. And Ralph provides the orange gratuitously precisely because he had the right to keep it. Mark has an obligation to respect this right. He receives the orange "without a good reason" through Ralph's good graces.

It is this latter circumstance that we now need to appreciate for its full value. Donations must be made within the boundaries of legitimate property rights, lest they be no donations at all. Donations must be *just*. To choose means to change a state of affairs that we can control. To choose within the boundaries of legitimate property rights means to change the state of affairs that we *legitimately* control.

Suppose John takes the orange that belongs to Ralph and donates it to Mark without Ralph's authorization. Is John making a gift? Apparently not. He fleeces Ralph, the true owner. John has the obligation to respect Ralph's ownership of the orange. If he takes it without Ralph's consent, John acts in violation of his own obligation and of Ralph's claim.

But could we not argue that John obtains the orange "without a good

reason" and therefore receives it gratuitously? And does not Ralph likewise "provide" the orange "without a good reason"? We have already answered these questions in discussing the nature of gratuitous evil. In a limited sense, it is true that the robber obtains goods gratuitously. But his gain is mirrored by the victim's gratuitous loss. The robber's deed therefore drains the very bedrock of gratuitous goods; namely, property rights. The robber does not obtain a good gratuitously. He takes loot.

In our example, John is a robber who hands out loot. But he might just as well be an imposter who sells goods that he does not own. He might be an embezzler who abuses the goods that other people have entrusted to him in good faith. Whatever the concrete crime may be, it is clear that all "donations" made from expropriations are false donations. They are forms of loot sharing. Likewise, all economic goods transferred out of fear, even when they are given without any conditionality, and even when they have the outward appearance of gifts, are no gifts at all, but *forced grants* that serve as investments in the donor's future security.

There might be extenuating circumstances, such as when a robber robs another robber in order to return the property to the legitimate owners, as in the legend of Robin Hood. But this does not alter the fact that whatever donations result from crimes are not genuine gifts. When Robin Hood returns taxpayer money to a taxpayer, he does not make a gift but a restitution.

When a donation is not freely made but occurs under coercion or the threat of violence against the person or property of the donor, then whatever unilateral transfer he makes is not a gift, but a tribute, ransom, tax, or other forced payment. The immediate beneficiary of such transfers is usually the person or organization that coerces or threatens the unwilling donor. Sometimes this beneficiary seeks to cloud the real nature of the act in euphemistic language, avoiding expressions such as "threat," "violence," and "coercion" and replacing them with seemingly innocuous terms such as "contribution," "duty," or "charge," which are borrowed from ordinary contractual relations.[19] It is not necessary for us to dwell on the rhetoric deployed to obfuscate the reality of the matter. A forced transfer is a crime, not a donation.

Sacrifice

A donation is not just the deliberate choice to do something good without expecting a return. It also has a material dimension. He who makes a donation commits *economic* goods to some other person for that person's

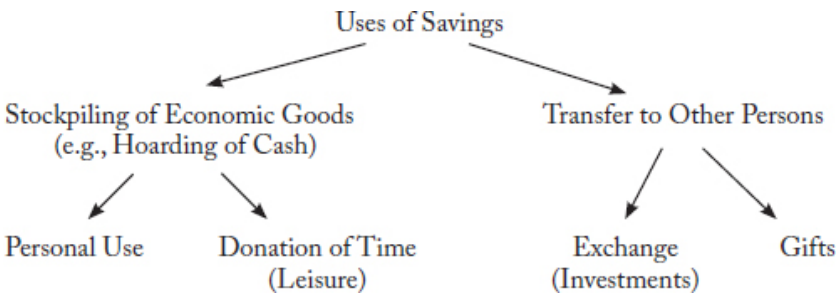
own sake or to some cause for its own sake. The donor forgoes the scarce services of these goods. He sacrifices them.

Earmarked Personal Savings

The economic goods that are devoted to some cause or given to another person come out of the donor's savings. To save an economic good means to *not* use it for one's own current gratification. It literally means to *save it from* one's current personal consumption.

Wealth is the common name for all economic goods that have been saved from consumption and preserved into the present. When we speak of savings, we therefore mean *additions* to overall wealth. The latter can be allocated to four basic purposes: personal projects, funding time donations to a selfless cause, investments, and gifts (see Figure 3).

FIGURE 3: USES OF SAVINGS



Savings that are earmarked for donations may be called *sacrificial* goods. Their characteristic feature is that the donor does not intend to use them for his own gratification but consciously and deliberately dedicates them to, or earmarks them for, a transcendent cause or another person. The earmarking may only exist in the mind of the decision-maker, as when a family decides to reserve some sum of money for poor relief. But often the earmarking itself is visible and public, especially in the case of holy spaces and religious holidays, which are distinguished from profane places and ordinary times (see Eliade [1957] 1990). There are holy places whose boundaries stretch across space, such as churches, temples, and mosques. There are holy activities whose boundaries span across time, such as the liturgy of Mass, holy games, Gregorian chant, and holy music.

An analogy to the concept of sacrifice is the Mengerian concept of capital, which denotes the monetary equivalent of all the economic goods that a person intends to use in order to earn revenue (Menger 1888).[20]

Capital goods, too, are often visible and public. Cases in point are factory buildings and trucks. But just as in the case of sacrificial goods, the only thing that counts in identifying capital goods is the entrepreneurial intention. No good belongs to someone's capital because of its physical characteristics. It belongs to that person's capital because he deliberately earmarks it to serve the pursuit of future revenue.

The more frugal a person's lifestyle, the greater the sacrifices he can make. The physiological facts of human life do set certain objective boundaries to human will. Even ascetics such as fakirs need to indulge in a minimum of personal gratification in order to make it to the next day. It is not physically possible to survive while being *entirely* devoted to noble causes and to other persons. *Some* personal resources need to be used to satisfy one's own needs. Indeed, the Bible commands the faithful to love his neighbor *as* himself, not more than himself.

But these physiological limits are wide. Today, a frugal person, whatever his wealth in absolute dollar terms might be, can create, enjoy, and share an abundance of goods. And indeed, there are many poor people who donate great shares of their time and material goods to noble causes and to other people. On the other hand, there are also people who, despite their wealth, do not know abundance. They are always short of time and money. When they speak, it is to provide information, give orders, and network. But they do not discuss questions of truth, beauty, and justice. They do not speak without expecting a return. They are stingy despite being rich. Indeed, if the stomach grows faster than wealth, there can be no abundance. This is the grain of truth in Sahlins's *Stone Age Economics* and in the wisdom of all tribes and all ages.

Nobody has expressed the relationship between savings and generosity more aptly than Jean-Baptiste Say. In the context of his theory of consumption, Say made the case for "economical consumption" as a virtuous middle ground between the opposite vices of prodigality and avarice. He argued that only the economical man *is able to* make truly free gifts because the prodigal spender will be forced to backtrack. The latter might make large donations but is likely to regret them soon after. Then he will turn to his donees to ask them for a quid pro quo. In Say's words:

> Without [the virtue of frugality] there can be no liberality, none at least of a permanent and wholesome kind; for, when it degenerates into prodigality, it is an indiscriminate largess, alike to deserving and undeserving; stinting those who have claims in favour of those who have none. It is common to see

> the spendthrift reduced to beg a favour from people that he has loaded with his bounty; for what he gives now, one expects a return will some day be called for; whereas, the gifts of the economical man are purely gratuitous; for he never gives except from his superfluities. The latter is rich with a moderate fortune; but the miser and the prodigal are poor, though in possession of the largest resources. (Say [1803] 1861, p. 449)

Sacrifices are made effortlessly in periods of growing wealth. Many families who *become* rich, thanks to successful businesses, often preserve their old consumption patterns for one or two generations. For a while, they have abundant time and material resources. But in the typical sequence of events, the stomachs of the succeeding generations grow and the abundance disappears. Similarly, periods of declining wealth (such as war and natural calamities) often entail dwindling abundance, as the stomach does not shrink quite as fast as the portions on the dinner table.

Sacrificial Abundance

The phenomenon of abundance to which we have just alluded merits some further thoughts. In a wider sense, abundance means *over*flow. But over what? In economics, the word *abundance* is commonly used in opposition to scarcity. It denotes a good that is available in such profusion that all human projects that depend on it can be realized. It is typically a free or noneconomic good, such as atmospheric oxygen. The abundance of such a good is so great that no person or group of persons, not even humanity as a whole, *can* use all units of that good. It overflows the human *capacity* to use it. It saturates all projects that depend on it.

Economic goods typically cannot be abundant in this sense. By definition, their quantities are not sufficient to satisfy all people. At least some projects that depend on them cannot be realized. But why is this only *typically* the case? Are there any exceptions? Surprisingly, yes. And even more surprisingly, the exception concerns the central good of a market economy, its general medium of exchange. *Money* can render abundant services to the economy as a whole because the latter do not depend on its quantity, but on its purchasing power. In monetary economics, this is known as one of the anomalies of money. The services of nonmonetary goods such as apples, chairs, and computer screens do not depend on their prices. But the services provided by money depend on the price of money, that is, on its purchasing power. And money's purchasing power increases whenever the demand for money increases. If the demand for apples

increases at a given stock, then apples become increasingly scarce. But if the quantity of money remained constant while the demand for money increased, money would provide ever more exchange services because its purchasing power would rise. Ludwig von Mises stated this remarkable fact in the following words:

> The services which money renders can be neither improved nor impaired by changing the supply of money. There may appear an excess or a deficiency of money in an individual's cash holding. But such a condition can be remedied by increasing or decreasing consumption or investment. (Of course, one must not fall prey to the popular confusion between the demand for money for cash holding and the appetite for more wealth.) The quantity of money available in the whole economy is always sufficient to secure for everybody all that money does and can do. (Mises [1949] 1998, p. 418)

The abundance of the services of money is rooted in the logic of indirect exchange. It is not planned or deliberately brought about by any human being. It is a beneficial but unintentional consequence of human action.

The sacrificial abundance of donations is different. Donated goods are *designated* as abundant. As we have argued, they are *earmarked for donations*, for purposes different from the self-gratification of the donor. Their abundance is of the sort that we find alluded to in Josef Pieper's monograph *Leisure, the Basis of Culture*, even though the great philosopher did not provide a proper definition. And indeed, it is difficult to precisely define abundance without any reference to private property and human choice.

Sacrificial abundance does not necessarily overflow the human capacity to absorb the good. But it always exceeds self-imposed limitations. It is a *chosen* abundance of *economic* goods that could very well be used for self-gratification. The donor deliberately limits the personal use of his resources. For example, he sets aside some time to visit with friends who may enjoy his company or with people who might need his counsel. This time thereby becomes abundant relative to the time earmarked for himself—it is an extra hour that he does not use for his own projects. And in the same sense, it becomes abundant for those other people, too. It exceeds the resources that they could command on their own through production and exchange.

In the case of donations of time, this overflow is often so great that it saturates all capacities of absorption. One hour sacrificed in keeping a lonely person company is as abundant as an hour possibly can be. It is full.

In the same way, an hour spent in prayer is abundant in that it completely fills this time. It *could not* possibly fall short of its purpose. And church buildings are likewise abundant. The buildings *cannot* fall short of their purpose. The very fact that they exist fulfills their essential function.

Josef Pieper writes about the abundance inherent in the celebration of Holy Mass. He argued that "it is in the nature of religious celebration to make a space of abundance and wealth, even in the midst of external poverty in material things. This is because *sacrifice* is at the center of the celebration." He went on:

> What is sacrifice? It is voluntary, a gift that is offered, and certainly *not* usefulness, but the very opposite of usefulness. Thus in the very midstream of worship, and only from there, comes a supply that cannot be consumed by the world of work, a space of uncountable giving, untouched by the ever-turning wheel of buying and selling, an overflow released from all purpose, and an authentic wealth: it is [celebration]-time. (Pieper [1948] 1998, p. 72)[21]

In less lofty cases, donations are abundant, too. Gifts occasionally do overflow the donees' capacity of absorption. Following Bernhard Laum (1960, sec. 5 and passim), we may think here most notably of copious meals. One of the great joys of mothers and grandmothers is to saturate the appetites of their little ones. And they are not alone. All meals provide the opportunity to create and share abundance. Saturating the hunger and thirst of one's guests is a time-honored custom. It is also a beautiful way of expressing friendship and providing joy. It is simple, profoundly human, and universal.

In most cases, it is true, sacrifices do not saturate the absorption capacity of the beneficiaries. Very often, sacrifices are appallingly insufficient to have any significant impact. In the presence of hunger and war, even large donations may turn out to be as drops of water on a hot stove. However, in all cases, donations create a state of *relative* abundance, as we have pointed out before. They create extra hours and extra money beyond what the beneficiaries could have obtained through their own efforts.

False Gifts

To conclude this chapter, it is appropriate to consider a few instances of things that are presented as gifts when in fact they are more or less well

disguised payments. Their typical purpose is to compensate the recipient for favors, goods, and services received, expected, or hoped for.

We have seen that a genuine donation has four essential characteristics: the donor intends to benefit some cause or person other than himself, he does not seek any compensation, he freely consents to the transfer, and his donation consists of personal savings. If one of these conditions is not met, whereas it is presumed or alleged to exist, the purported donation is in fact a false donation or pseudodonation.

Accordingly, we may distinguish four basic types of pseudo-gifts. (1) If the donor is not truly devoted to the beneficiary, he is making a grant rather than a gift. (2) If he does not intend to make a gift, but rather expects the beneficiary to compensate the action with a reciprocal service, then the good in question is an ordinary payment that is merely disguised. It is a "price under the mantle of a gift," or a hidden price. (3) If the donor does not agree to donate, then he is fleeced. (4) If he is not the legitimate owner of the donated good (if he does not sacrifice any of his own goods), then the ostensible gift is in fact loot. We will deal with false donations at various points throughout the remainder of this book. In what follows, we will highlight the most important techniques that serve to disguise nongifts as gifts. Most notably, false gifts are a standard technique in sales and marketing, where they serve to obfuscate genuine market prices. But the mantle of gifts may also cloak more primitive forms of exchange that usually go by the name of tit for tat. Let us briefly discuss these cases in turn.

Prices under the Mantle of Gifts

Hidden prices are fairly widespread in commerce. Price reductions are a common example. The seller tells his prospective client that a commodity is from now on priced x percent below the regular price. A variant of this is the "sale" price after Christmas. The seller gives the impression that he is reducing the price in order to make a particularly good offer, whereas his goal might just be to sell the good at the highest realizable price under the new market conditions (out of Christmas season). Still another variant is the "extra" merchandise given on top of what has been bought: an extra oyster at the market or an extra handkerchief at the clothes store. Here too the purpose might not be to make a gift, but to entice or reward customer fidelity.

Other variations of the same technique are well known. Firms trying to increase their market share may sell their goods for particularly low prices for some time. Similarly, young or unemployed people often work for free

or for very low wages to get a foot into an industry.[22] Other firms might give certain products away for free in order to earn money by selling complementary goods in the future. In the 1950s, Gillette applied this method on a large scale, giving away razors in order to sell the corresponding razor blades. Still other firms provide gratuitous services to one group of people while selling advertisement opportunities to others, as with television shows (see, for example, Farchy, Méadel, and Sire 2016, pp. 29–32). In the internet-based economy, these forms of cross-subsidization are often complex, but they ultimately have the same effect. In virtually all such cases, the purported "gift" is part and parcel of ordinary competitive market behavior. It constitutes competitive pricing, designed to increase the entrepreneur's bottom line.[23]

While this is so in *virtually* all cases, there may be exceptions. The difference between a genuine gift and a hidden price is rooted in the donor's intentions, but his thoughts are not subject to the scrutiny of outside observers.

One might argue that hidden prices play on the credulity of customers and possibly abuse this credulity. But the customers are not easily fooled. Some people, it is true, mistake commercial offers for genuine gifts. But the astute buyer is fully aware that the seller is not engaged in gift giving. He is likely to see through the *posted* intentions to the *true* intentions, which concern the seller's bottom line. In short, both sellers and buyers incorporate the commercial offers into their calculus and neither side perceives them as gifts. Therefore, such offers are no gifts, because genuine gifts presuppose the donor's *intention* of not receiving anything in return.

Now, this does not mean that in such commercial offers there is no gratuitous component at all. As we will see in more detail, the competitive market process invariably generates gratuitous benefits. The customer benefitting from a price reduction is not just benefitting in his imagination. He may be credulous in thinking that the seller wishes to hand out gifts. But he is not hallucinating: the price reduction *is a real benefit*, not just a figment of his imagination. As we have explained, it is for him a *gratuitous* benefit, even though it is not a gift. In chapter 6, we will argue that price rebates may be interpreted as *side effects* of the competitive market economy, and of a growing economy in particular.

Analogous observations can be made about involuntary payments under the mantle of gifts. The most important cases are organized crime and government. In discussing the importance of free choice as the effective cause of donations, we have already mentioned that governments, at all times and places, have sought to cloud the coercive nature of taxation by

giving it various names that suggest that the payment is a voluntary contribution rather than a sum extorted at the point of a gun. But governments have also sought the mantle of gifts when compensating their employees. For example, land grants to hereditary nobility were usually presented as gifts, yet these were false gifts because the grant was as a rule revocable (see Weber 1922 passim).

Tit for Tat under the Mantle of Gifts

False gifts may also come in the form of a tit for tat. What distinguishes tit for tat from an ordinary market exchange is that the terms of the exchange are *not definite*.[24] To wit, consider the difference between buying bread and attending a dinner party. Buying bread in a bakery is a straightforward affair. The baker displays the prices he asks for his breads, the customer hands over the money, and the baker hands over the bread. Things are different when an invitation to a dinner party is bargained against another or when birthday gifts are traded, for example. Here the terms of the exchange are not definite. They are often ruled by customs within more or less broad margins.

Tit for tat is widespread in a great variety of social settings. Birthday and Christmas gifts are often not true gifts but tit for tat for previous "gifts" or attempts to oblige the beneficiary to give a "gift" in the future. It is unclear why people prefer to "truck and barter"—to use Smith's famous expression—in the form of tit for tat rather than through outright monetary exchange. It may be a consequence of various legal restrictions placed on market exchange (we will examine this hypothesis in the last part of our book). It may also have something to do with the odium that sticks to money payments or with the deep-seated human desire to fool oneself. Whatever the explanations may be, the fact is that everybody recognizes these customs for what they are. As a rule, they are perfectly innocent and very human. In the next chapter, when studying the causes and consequences of donations, we will have the opportunity to deal with such customary gifts in a bit more detail.

1See the overview in Andreoni and Payne (2013) and Kolm and Ythier (2006).

2These four conditions correspond to Aristotle's (1995) final, formal, efficient, and material causes. See *Physics*, bk. 2, chap. 3, and *Metaphysics*, bk. 5, chap. 2.

3Halbertal (2012, pp. 1–2) points out that the term "sacrifice" has three related meanings: an offering of property from humans to God, the victim of a crime,

and giving up a vital interest for a higher cause. In the present book, we will be mainly concerned with the third one and occasionally comment on its connection to the first. Our main purpose is to understand the significance of sacrifice from the point of view of the theory of subjective value. Notable studies of sacrifice are de Maistre ([1810] 2010); Hubert and Mauss ([1899] 1964); Girard (2004); and Halbertal (2012). Other philosophical approaches are presented in Keenan (2005).

4For general overviews of the economic conception of leisure, see Veal (2006); Osberg (2018); and Weiss (2009). Becker (1965) has argued that the distinction between labor and leisure is of secondary importance within the economics of allocating time.

5Moreover, there is a venerable strand in the economic literature that denigrates leisure in this sense and compares it unfavorably with labor. See especially Thorstein Veblen ([1899] 1934, pp. 43–53). In Veblen's eyes, the "nonproductive consumption of time" is motivated by "a sense of the unworthiness of productive work" and the desire to furnish "an evidence of pecuniary ability to afford a life of idleness" (p. 43).

6Notice that time not used for labor can be used for immediate gratification (pleasure), but it can also be dedicated to a transcendent cause or to another person.

7Benda ([1927] 2003) argued that a true intellectual pursues a universal cause such as truth, justice, or democracy. He denounced the tendency of the intellectual renegades (the "betrayers") to value work or effort higher than contemplation.

8See, for example, the German civil law code (*Bürgerliches Gesetzbuch*), sec. 516. See Burckhard (1899) for a fuller juridical discussion. See also Jhering (1893, pp. 100ff., 121) and the very comprehensive analysis in Dupeyroux (1955). For a concise presentation of the system of contracts within civil law, see Scalise (2016). The legal definition of gifts is somewhat unsatisfactory in that it does not account for the difference between gifts that are intended to exclusively benefit the donee, and those through which the donor also intends to benefit himself. We will discuss this issue when dealing with grants, see pp. 78ff.

9For discussions on relational goods in present-day economics, see Uhlaner (1989); Gui (2000); Prouteau and Wolff (2008).

10It is also prominent in the philosophy of Immanuel Kant, who had arguably an even greater impact on subsequent generations. See most notably Kant ([1788] 1991, p. 128 and passim).

11Similarly, Alain Caillé (1994) distinguishes between a self-centered "interest in" and an altruistic "interest for." John Mueller (2010), Damien de Callataÿ (2011) and Catherine Gbedolo (2015), too, understand that intentionality is no obstacle to free gifts.

12Herbert Spencer apparently argued in an analogous manner (see Durkheim

[1893] 2013, p. 94). McCaffrey (2015) and Szpindor Watson (2015), too, have recently endorsed Misesian autistic exchange in their debate with Mueller (2015). Andreoni (1989, 2018) makes the case that charitable giving is motivated by "warm glow" feelings. And Gary Becker's (1974) concept of "social income" ultimately boils down to the same idea; namely, that altruistic action is driven by the agent's bottom line, even if it is a "social" bottom line.

13In a very similar argument, Rudolf von Jhering (1893) famously stressed that there is no such thing as human action without personal ends (*Zwecke*). Just as there is no physical thing without a cause, there is no act of the will (no human action) without an objective that the action seeks to accomplish (p. 5). Whereas altruistic activities seem to contradict this fundamental contention, in Jhering's judgment this contradiction is apparent only. However, his solution to this riddle is not convincing. Distinguishing between egoistic and self-denying motivations, Jhering wrote the following about a person driven by self-denying motivations: "[He] does not seek inner satisfaction about his own deed . . . but a satisfaction completely unrelated to any thought about himself, namely, satisfaction about the *success* that the deed produces in the person of the other; it is the joy of seeing the other happy" (p. 54). This solution is problematic in that it stresses the *satisfaction* of the protagonist. While self-denying action *à la* Jhering is unrelated to any thought about oneself, it still pursues the acting person's satisfaction and joy. But this seems to be a selfish objective after all. The proper objective of a self-denying act is the happiness of the other, period. The protagonist himself may harbor feelings of satisfaction and joy, as long as these are not intended outcomes.

14Also notice the reference to the *psychological* concept of the "satisfaction" that the autistic exchange "gives to" the acting person. This does not rhyme well with Mises's *praxeological* approach.

15Conditional gifts require particular vigilance on the part of the beneficiary. For a discussion of their practical issues in the light of concrete cases, see Lalani (1997).

16More complicated cases are imaginable. In private correspondence (2018), David Gordon pointed out the possibility of a passerby giving cardiopulmonary resuscitation to an unconscious stranger, which seems to be a gift, even though the recipient has not accepted it and is in fact incapable of doing so.

17Schopenhauer ([1851] 1905–10, 4:171ff.) memorialized the professional philosophers. On the difference between economics as a vocation and economics as a profession, see Salerno (2019b).

18It is therefore not quite appropriate to call the market economy a "giving economy," as Gilder (1981, chap. 3) and Rhonheimer (2015) do.

19For a discussion of the historical and etymological continuum between voluntary and forced payments to the government, see Bernhard Laum (1960, chap. 16, pp. 242ff.) Similarly, Köpping (2002) points out that the Latin noun *munus* stands for *exchange*, *gift*, *homage*, and *tribute*.

[20]Menger's medieval precursor is Olivi ([1295] 2021, III, sec. 63). Eduard Braun (2015, 2017, 2020) has highlighted some of the theoretical and practical implications of Menger's conception.

[21]NB: The English edition of Pieper's text oddly translates the word *Feier* (celebration) as "festival." In the present context, which concerns the celebration of Mass, this is especially inappropriate because the corresponding English phrase is "to celebrate Mass."We have therefore taken the liberty of rectifying this shortcoming.

[22]For a critical assessment of such ostensibly gratuitous services clothed in euphemistic and misleading vocabulary ("volunteering"), see Simonet (2018).

[23]Akerlof (1982) interpreted labor contracts as "partial gift exchanges." He argued that firms which paid wages above the market-clearing level could expect workers to supply greater effort, and he therefore called these higher wages (larger gifts) "efficiency wages." However, for the reasons stated above, such wages are not gifts at all.

[24]According to Mises ([1949] 1998, p. 197), the exchange of definite quantities is a characteristic feature of a free society, where social relations are based on contractual bonds, as opposed to hegemonic regimes: "In the frame of a contractual society the individual members exchange definite quantities of goods and services of a definite quality. In choosing subjection in a hegemonic body a man neither gives nor receives anything that is definite. He integrates himself into a system in which he has to render indefinite services and will receive what the director is willing to assign to him. He is at the mercy of the director. The director alone is free to choose."

3

Motivations of Donations

Donations have final, formal, efficient, and material causes. Economics is mainly concerned with the efficient ones. It looks at the human choices that bring donations about. But we have seen that the final cause—the general purpose or objective—of donations is the central pivot toward which all other causes are geared. Before we turn to the economics of donations, it is therefore advisable to study how human choices are motivated by this purpose.

The *immediate* cause of a donation is always and everywhere to be seen in the choices of the donor. The donor *prefers* to donate some of his time or material resources rather than using them for other purposes. This inescapable fact is the starting point of the economics of donations, a subject that we shall deal with in chapter 5. But *why* does a man harbor the preferences that turn him into a donor? Why does he prefer to give rather than keep for himself?

Economics can shed some light on these questions to the extent that human preferences are determined by the context of economic development and prevailing market prices. Economic growth is an important boon for material donations. Rising wage rates on the labor market may lead to reduced donations of time. However, here we are concerned not with the question of *why donors give more or less*, but with the question of *why they give at all* and with the related question of *why some refuse to give anything*. To these questions, economics has no answer. In order to understand the ultimate purpose of donations, as well as their consequences, we must look elsewhere.

Love

We have stated that a donor is motivated by *love* of the cause or person to whom he dedicates his time and resources or to whom he transfers

property. This may warrant a few remarks. As a starter, why do we not use a less emphatic word, such as *generosity*, to designate the cause of donations? Clearly, the word *generosity* would be perfectly appropriate and fine in this context—after all, a donor *is* generous. But it would also entrap us in a tautology. To be generous *means* to make donations. But our question here is *why* donations are being made. And the right answer to this question is that donations are motivated by a mental disposition that is commonly called love. The lover *wishes* the loved person or thing to exist and to thrive, and this desire prompts him to be generous.

Philosophy distinguishes between a variety of types of love, each of which might motivate, in one way or another, donations of time and material resources. In what follows, we will highlight three particularly well-known forms of love, as well as the crucial role of the family as a school of love.

Eros, Philia, Caritas

Acts of devotion to a person or to a scientific, artistic, or moral cause are typical expressions of *eros*, the love of beauty. Erotic love is awakened and stimulated through the senses, through human touch, eyes, ears, smell, and taste. However, as Plato argued in his *Symposium*, the affection for the impressions of the sense organs is only a first step in an erotic love affair. *Eros* is a longing for something that the lover does not possess. It drives him and guides him. It eventually leads him to the discovery and appreciation of inner beauty—to the ideal that the loved activity or object or person instantiates. And from there, his love affair drives him to God. Indeed, it leads him from loving the singular to loving the universal, from loving the part to loving the whole, from loving the fleeting moment to loving what remains eternally, and from loving the creature to loving the creator.

Similarly, when discussing friendship (*philia*) in his *Nicomachean Ethics*, Aristotle (1893, chaps. 8 and 9) distinguishes a noble form of friendship based on shared ideals from profane friendships based on pleasure and on utility. Friendship may be based on shared pleasures of a carnal sort, the pleasures of drink, food, song, dance, sex, hunting, sports, and similar things.

Utilitarian friendship is based on mutual material dependence for the attainment of material ends. Friedrich von Hayek (1976, p. 108) points out that the Greek verb *katallatein* means "to exchange" but also "to turn a foe into a friend." The catallactic order, the exchange economy, is indeed one of the most powerful engines of social integration. The friendship that results

from market exchange is utilitarian friendship. An entrepreneur makes business friends, an employed worker befriends his colleagues. These friendships quite naturally lead to the creation and development of business associations and labor unions.

The friendship between spouses may be utilitarian, too, to the extent that they love each other as means for the attainment of common objectives (raising children, acquiring property) and of personal ends (enjoying sexual intercourse, a well-managed home, a greater income, etc.).

By contrast, idealistic friendship is based on the common devotion to a transcendent good such as justice, beauty, or the worship of God. It is the first step to the Christian notion of love. *Agape*, or *caritas*, is the divine, selfless affirmation and promotion of the other for the other's sake.1 *Caritas* is embodied most notably in the command to "love one another as I have loved you" (Jn 13:34).

Love of this sort may seem to be paradoxical as far as the gratuitousness of love is concerned. Indeed, by loving others, the Christian is working toward *his own* sanctification and salvation. But then his love seems to be selfish. It therefore cannot be a genuine gift, which requires genuine devotion to others. However, he who in the same act loves himself *and* others still provides a gift to these others, though not a perfect one. Moreover, he may love others without *intending* his own salvation. The latter would then result from his action, yet without being his design. In *this* case, his love of others would be a perfect gift.

Similarly, the *commandment* to love others may seem to annihilate the gratuitousness of such love. If Peter is *obliged* to love Paul, then loving Paul does have a "good reason" of the sort that we discussed in chapter 1. Again, this seems to be no genuine love at all because genuine love must be gratuitous. However, Jesus addresses His commandment only to those who wish to be His followers. He does not impose *ex nihilo* claims and obligations on all of humanity by virtue of His sovereign power. Rather, He invites a response. And He indicates the sort of response that He expects. *If* Peter wishes to be a disciple of Christ, *then* Peter needs to love his neighbor Paul, as well as all of his other neighbors. *As* a Christian, therefore, Peter's decision to love Paul comes in fulfillment of his obligation toward Jesus Christ. But his decision to *be* a Christian is not an obligation. It may very well be a gratuitous act, prompted by his love for Jesus.

Christian theology affirms that, ultimately, all love is oriented to God. When we love our spouse, our love is already oriented to God to the extent that we truly love our spouse. Similarly, any love for sciences and the arts is ultimately oriented to Him (see Aquinas [1259–65] 2009, bk. 3, chaps. 17–

37).

A School of Love

It is clear that pleasure-based and utilitarian friendships cannot be the origin of genuine donations, though they can be the origin of grants. Only idealistic friendship motivates genuine donations. Friendship typically comes in the forms of relational donations in the form of time spent together, of material gifts intended as relational gifts (expressions of friendship), and of material gifts intended to improve the material condition of the beneficiary.

In the Christian conception, *caritas* is the ideal toward which all social relations should be oriented, beginning with the family. The ideal of marriage based on love—rather than on pleasure or utility—is a distinctly Christian ideal, even though it came into full swing only in the eighteenth and nineteenth centuries, when Christianity had started to lose its grip on public policy. But it is not only the relationships *within* the family that should be based on love. The central function of the family is to *cultivate* love as a habit. It is supposed to be a school of virtuous life—a "school of devotion and abnegation" (Durkheim [1893] 2013, p. XVIII)—starting with the virtues of love and friendship. The prime vehicles of this moral education are good words and, especially, good examples. Children naturally imitate the behavior of their parents. Eventually they come to imitate their thinking.

Non-Christian families tend to play this crucial role, too. They cannot fail to play it. They are driven toward it by the logic of family life. Even if the spouses do not deliberately strive to love each other and their children, even if they are brought together not out of their own desire, but in order to honor ancient customs or out of respect for the decisions of their elders, they will tend to learn to love each other. To be sure, this tendency is no mechanical or failsafe way to love. Families, too, are subject to opposing influences. Family life, too, may involve abusive relations and the horrors of violence. The point is that it is impossible to reap the material benefits that spring from the division of labor within the family without a minimum of trust and mutual appreciation. This does not only hold true for the carnal pleasures of the spouses. It is impossible to even share a meal or carry on a conversation without respecting the needs of others. Lubomir Mlčoch argues that sharing meals "constitutes a powerful emotional and even theological experience. Its image is so powerful that it has inspired great artists and found its way into many Biblical stories." He goes on:

> When Jesus Christ wanted to show us a glimpse of the unimaginable eternal Kingdom he repeatedly used parables of banquet and wedding receptions. [H]is stories also linked together the unity which comes through eating together with that which comes through the shared preparation of a meal. Little else brings family together as much as the joint preparation of food and sharing a meal. (Mlčoch 2017, p. 23)

The family is therefore a fertile soil where love grows even when it is not deliberately planted.2 Family life educates all its members in the cultivation of the virtues. It is the breeding ground of prudence, justice, strength, moderation, wisdom, understanding, counsel, and piety. It most notably fosters the virtues of chastity and virginity. It nourishes in family members the habit of withholding great goods from the ordinary course of human interaction, to keep them holy in defiance of all material and emotional incentives to secularize them. The virtues of chastity and virginity are therefore fundamental for culture and donations.

Customary Gifts

Speaking of families as schools of love does not seem to have much to do with ordinary life. It seems to be idealistic speculation. And in a way, this is true. Philosophers and theologians would readily admit that the erotic ascension from earthly pleasures and utilitarian friendships to the towering heights of *caritas* is next to impossible in practice. No human walks this steep path out of his own strength. Ordinary love is rooted in earthly matters and rarely strays far away from them. It only faintly responds to inner beauty and the divine. It revolves around what is pleasant, helpful, and customary.

Many expressive gifts are customary gifts. They are made on occasions on which one usually makes a gift; for example, on birthdays, at baptisms, on engagement, at weddings, on Mother's Day, on Father's Day, on religious feast days such as Christmas and Valentine's Day, and on various other special occasions.

Customs grow slowly but steadily. In developed civilizations, customary gifts tend to be pervasive. This circumstance has clouded the judgment of many students of gifts and of the gift economy. They have come to conclude that the effective cause of gifts is not to be found in individual choices, but in the social obligations into which one is born. Marcel Mauss and a host of others have even come to consider customary gifts no gifts at all, but elements of a generation-overlapping tit for tat. They are part and

parcel of an eternal social circuit in which transfers of economic goods are ordained by obligations toward others and give rise to ever more claims on others.

The fallacy of this point of view is not difficult to see. All it takes is to examine the nature of gifts and to trace their causes back to individual choices, as we have done on the preceding pages. It then becomes manifest that the social context within which a gift is made has no bearing at all on its gift character. The only relevant consideration is whether the donor freely intends to give without expecting any return, out of his love for the donee.

Clearly, customary gifts cease to be genuine gifts if they are made *only* to honor the custom. Then the recipient of the gift is merely the lucky winner of a custom lottery, whereas the donor truly appreciates not the person, but the custom. And he may not even appreciate the custom, but may just want to stay out of the trouble into which he would get himself were he to disrespect it. It is true that customs constrain the time and place of certain expressions of love. Some customs even ordain the exact form of this expression (ceremonial kisses, birthday cakes). But all of this is secondary. Customary gifts *may be* genuine gifts. It is likely that most of them *are* genuine gifts.

Moral Hazard

Gifts entail two sorts of costs. On the one hand, like all human action, gift giving goes hand in hand with opportunity costs. The goods that are given away could have been used otherwise. The advantages enjoyed by the donee could have been enjoyed by somebody else. On the other hand, we find a type of cost more specifically related to gift giving; namely, a moral corruption that in today's economic jargon is known as moral hazard. This most notably concerns gifts that improve the *material* situation of the donee and which the latter *expects* to receive, such as alimony payments or charitable donations.

It is well known that such assistance can be abused, and the risk of such abuse is precisely the above-mentioned moral hazard. There is a risk *for the donor* that the donee, expecting to benefit from the donor's continued support, will relax his efforts to stand on his own feet. Similarly, there is a risk *for the donee* that the donor will abuse his position of power and start to exact conditions. These risks depend on the character of the donor, on the character of the donee, on the scope of the expected donations, and on various other factors.

Often such moral hazard turns from risk to reality and becomes an entrenched dependence. Kenneth Boulding called this the "dependency trap" of one-way transfers (Boulding 1973, p. 99).[3] A classical case is the subsidization of "infant industries" that never grow up but turn into dependent industries. Another important example concerns welfare programs, such as the US Aid to Families with Dependent Children program. Boulding (1973, p. 100) pointed out that welfare programs "may easily produce a 'welfare subculture' permanently dependent on welfare grants and incapable of making possible adaptations toward genuine independence. We see the same phenomenon in the United States in the Indian reservations, which are perhaps one of the most disastrous examples of an acute dependence trap." A few decades later, the field studies of Charles Murray (2012) and others confirmed these apprehensions.

Gifts are not riskless. Neither are loving, trusting, investing, and crossing the street. In a free society, these risks are freely accepted. Freedom of action makes donors and donees responsible, thereby limiting the aforesaid risks. When a donor has the option to cut back on or walk away from his charitable engagements, there are strong incentives for the donee not to abuse the support he receives. When donees truly depend on their sponsors, the latter have a strong incentive to engage with those who cannot help themselves; to engage with them not only by handing over a check, but also with empathy and friendship.[4]

Altruism

We have repeatedly emphasized the crucial role of love as a cause of donations. This includes most notably the altruistic love of others. The altruist is concerned with the welfare of others for their own sake. The benevolent altruist wishes them to be in good spiritual, intellectual, emotional, and physical condition, for his beneficiaries' own sake. Because this is his ultimate end, the altruist is willing to use his own resources—especially time and money—to promote it, even if no further good may come of it for himself. He is giving time or money in excess of what he is obliged to give. He provides gratuitous goods to his loved ones.

Altruism is occasionally portrayed as the antidote to all ills that may befall mankind and society. It is affirmed that economic crises, greediness, and inequality—to name just these few—are ultimately rooted in selfishness and the profit motive. The way out is to tame our selfish impulses, to cut back on haggling and trading, and to start caring for others, which will lead us to interact more through gifts and less through

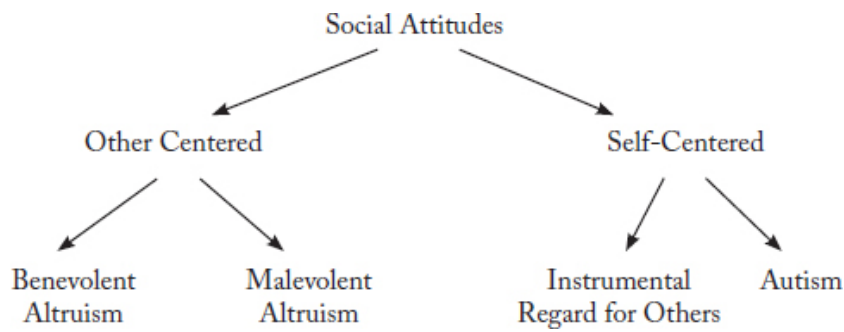
market exchange.5

At first glance, this argument sounds plausible. But it turns out to be problematic if we look in more detail at the issues involved. In what follows, we shall highlight two basic problems of any altruistic strategy for social reform.6 On the one hand, altruism must not be confused with benevolence. Torturers and slanderers are altruists, too. They are "concerned with the happiness of others," though in a perverse way. They are *malevolent altruists*. On the other hand, although *benevolent* altruism is easy to define in general, it is difficult to put into practice. Let us discuss these issues in turn, starting with a taxonomy of social attitudes.

A Taxonomy of Social Attitudes

For a self-centered person, the improvement of others' conditions is not an end in itself. He may very well care for others, but only as a means to improve his own welfare, not as an ultimate objective. Self-centeredness might even take the form of self-absorption or solipsism, as in the case of autism. Such persons barely pay any attention to others. Their thoughts and acts are nonsocial or asocial.

FIGURE 4: TAXONOMY OF SOCIAL ATTITUDES



By contrast, when a person is motivated by other-centered concerns, the improvement of others' conditions, as he perceives them, are for him an end in themselves. This is most notably the case in benevolent altruism, in which the acting person wishes to improve others' conditions. However, it is also the case when the acting person wishes to deteriorate others' conditions. Benevolent and malevolent altruists have one thing in common: the realization of their objectives *depends on* the satisfaction of others' preferences. In the case of benevolent altruism, this dependence is positive. In the case of malevolent altruism, it is negative. Let us look at these forms

of altruism in a bit more detail.

Malevolent Altruism

Malice is a plain fact of everyday experience. It has been known in all ages and civilizations. In the early eighteenth century, Bishop Joseph Butler discussed it under the name of "disinterested cruelty" or "disinterested malevolence." He contended that "disinterestedness is so far from being in itself commendable, that the utmost possible depravity, which we can in imagination conceive, is that of disinterested cruelty" (Butler [1726] 1841, p. xii).

The malevolent altruist wishes other people to fare ill. In his eyes, it is good that these others do not do well, that they are poor, feel pain, or are lonely. Because such suffering is for him an ultimate end, he is willing to invest resources to make sure that others' condition deteriorates, even if no further good may result therefrom for himself or anybody else. In this case, where gratuitous harm is *intentionally* inflicted on others, it is appropriate to speak of *gratuitous evil*.

In his disquisition on the foundations of morality, Arthur Schopenhauer ([1840] 2010, p. 204) identified ill will or spitefulness (*Übelwollen*) as a major anti-moral driving force (*antimoralische Triebfeder*) of human behavior: this force is "very abundant, indeed, almost commonplace in its lower degrees, and it easily approaches the higher." He considered it to be "very fortunate for us that prudence and politeness throw their mantle over these and do not allow us to see how universal is mutual ill-will and how 'the war of all against all' is carried on, at least in thoughts" (pp. 204–5). He noticed that ill will often resulted from envy, but even more so from a profound glee over the misfortune of others, a pleasure in seeing other people suffer, which in the English language is today often expressed by the German word *Schadenfreude*. Schopenhauer (1840, p. 205) explains:

> In a certain respect, the opposite of envy is *Schadenfreude*. Yet to feel envy is human; to enjoy *Schadenfreude* is devilish. There is no more unfailing sign of a thoroughly bad heart and profound moral baseness than an inclination to pure, heartfelt *Schadenfreude*.

In practice, it is not always easy to detect malevolent forces at work. The deception works so well because sins are deviations from a virtuous middle ground. Despair and thoughtlessness are deviations from the virtue of

hope. Ruthlessness, permissiveness, and envy are deviations from justice. Hatred toward other men is a deviation from justified hatred of evil deeds. Unsurprisingly, therefore, those who are prone to envy and hate tend to hide their motivations under the mantle of justice.

Problems of Benevolent Altruism

Malevolent altruism has no monopoly on evil consequences: benevolent altruism is not without problems, either.

As we saw when discussing the Hobbes fallacy, there is no human action that is not driven by the acting person's own objectives. There is no benevolent altruism without the motivation of an individual self. What makes altruism self*less* rather than self*ish* is that the *intention* to care for the welfare of others is the *ultimate end*.

Benevolent altruism is difficult to translate into action because it is unavoidable that the identification of what benefits the other will be colored by our own notions of the latter's needs. There is a danger of the altruist's seeking to foster not the other, but his own abstractions of how the other—or the environment, the world, or the universe—should be. Clearly, in this case, he would ultimately seek to foster himself. The presumptive beneficiary would just be an instrument for the altruist's self-aggrandizement. This does not mean that the action of our false altruist would be without merit, but it does mean that it would be driven by narcissism rather than altruism. Genuine altruism requires love for and openness toward the other. It requires a thorough knowledge of the other and of one's self.

Moreover, the genuine altruist uses *his own* resources. By contrast, there are myriads of people who profess to be driven by the welfare of others or by the public interest and who act as paid employees of public administrations and private charitable organizations. God knows their hearts, but for a human observer, it is difficult to tell their true motivations. It is plausible to suppose unselfishness on the part of those who *fund* nongovernmental organizations (NGOs) and other organizations of the so-called third sector (but even this assumption should be made cautiously). The same presupposition may often be made in regard to all those who labor *without pay* in families, parishes, associations, and clubs of all sorts. But the salaried employees of public and private welfare organizations may not claim this presupposition in their favor. They are *prima facie* engaged in ordinary commercial activity. They don't give their time for free. Like all other employees, like all people who work for profit, they "have had their reward" (Mt 6:2).

And then of course there is, in the civil service as elsewhere, the propensity to *mask and disguise* quite ordinary material interests under the cloak of presumably noble aspirations. Schopenhauer ([1851] 1905–10, 5:226) had a keen eye for this fact: "Our civilised world is but a grand masquerade. Here we encounter knights, pastors, soldiers, doctors, lawyers, priests, philosophers, and whatnot! But they are not what they represent: these are mere masks, under which, as a rule, are moneymakers."

Benevolent altruism is the essential motivation of gift giving. But it is important to be aware of its limitations. We have already quoted Smith's ([1776] 1994, p. 485) famous quip: "I have never known much good done by those who affected to trade for the public good." Benevolent altruism might very well lead to a *deterioration* of the conditions of others, and in practice it often does (see Oakley, Knafo, Madhavan, and Wilson 2012). This is so for three basic reasons.

First and foremost, benevolent altruism is a matter of motivations, or *intentions*. It does not concern action nor the effective results of action. From the fact that someone harbors benevolent *feelings*, *attitudes*, or *objectives* in regard to others it does not follow that he sets out to *act* in the material world to improve their conditions. Second, even those altruists who are driven to "do something" do not necessarily make the world a better place. They do not necessarily employ *suitable means* to achieve their benevolent ends. A well-intentioned person might be wrong about the relevant causal relations and therefore choose means that either have no desired effect or produce the opposite of what is desired. A classic example from public policy is the case of minimum-wage laws. The imposition of above-market wage rates by law seems to be a convenient shortcut to improve the material conditions of the working poor. But in practice such laws prevent low-productivity persons from obtaining jobs. Unemployment statistics illustrate this fact. Among the unemployed, there is a great preponderance of the young, the inexperienced, the old, and the handicapped.[7]

A third reason why benevolent altruism is neither necessary nor sufficient to improve the conditions of others is that its protagonists might go astray when they proceed to conceptualize the *concrete meaning* of their *objective* (see Rhonheimer 2001, pp. 204ff.). All people of good will agree to strive for "the common good." But what does this mean concretely? Altruists may seek to improve "the conditions" of other people. But what they consider to be an improvement does not always coincide with what the putative beneficiaries think. And even if these altruists and their presumptive beneficiaries agree on this point, they might *both* be wrong

about what would *really* be an improvement.

These remarks are not meant to denigrate benevolent altruism but to serve as a reminder that it is difficult to translate altruism into good deeds. There is a difference between wishing well and doing good. There is no easy route, no intellectual and material shortcut, to any sort of improvement. Benevolent altruism must be based on truth no less than on charity. It requires *caritas in veritate*.

The Rejection of Gifts

Donations, and gifts in particular, are not always welcome. There are people who seek to avoid gift giving and gift receiving altogether. What are the motivations behind this rejection?

Gifts can be embarrassing for the beneficiary. This may result from a particular characteristic of the gift: that it comes from the wrong person, that it is too expensive, too beautiful, too something. But what shines through in these instances is, very often, an embarrassment about the *principle* of the gift in question. For what does it mean that a gift is too expensive? Too expensive as compared to what? And why would this matter if the gift were a true gift? The expensive gift would be a problem only if it were not a true gift, but the initiation of a tit for tat. Then it might be too expensive to reciprocate. Similarly, who would be a person from whom we could, would, or should rightfully accept a gift? A person to whom we would not mind being indebted? But then, again, the gift in question would not be a true gift, but part and parcel of a tit for tat.

The rejection of gifts, then, may be inspired by very different reasons. In what follows, we will discuss three of them in more detail. The rejection of gifts may result from the donee's doubts about the motivations of the donor, from pride, or from a rejection of the very principle of private property.

Misunderstanding Gifts

It is not always easy to understand the true character of a gift because this character depends on the unobservable motivations of the donor. Rich gives a bottle of champagne to Poor on the occasion of the latter's birthday. Poor might just be merry without any afterthought. But he might also ask himself whether this was truly a free gift. Did Rich just initiate a tit for tat? Does he wish to indebt Poor, to set him up for some unspecified future service? By their very nature, these questions can never be answered with full certainty. It is impossible for us to look into another man's heart. And

the difficulty increases when we receive gifts from strangers or under unusual circumstances. This is why under civil law, gifts are contracts in which the donor and the donee formally agree on the gratuitous nature of the transfer. Clearly, such attempts to make the donor's and donee's motivations explicit remain superficial. They do not penetrate to the heart of the matter: the intentions of the donor and the donee. This is one reason for the reluctance to accept gifts.

The Revolt of the Proud

The rejection of gifts may also reflect a deep-seated human desire to return each favor to "get even" with one's benefactor, to pay one's debts, even if those debts are indefinite, even if they are moral rather than monetary, and even if they are purely imaginary. In other words, it may be rooted in human pride, in the warped ambition to be the exclusive master of one's own fate.

Josef Pieper argued that the mindset of the proud was at the root of the rejection of leisure—which implies, we might add, the rejection of gratuitous activities. Correspondingly, this frame of mind entailed the one-sided veneration of effort, or labor, as a source of human well-being and happiness. In Pieper's words:

> The innermost meaning of this over-emphasis on effort appears to be this: that man mistrusts everything that is without effort; that in good conscience he can own only what he himself has reached through painful effort; that he refuses to let himself be given anything. (Pieper [1948] 1998, p. 39)

Mises expressed the mindset of the proud very well in his discussion of the welfare state, or, as he called it, the charity system. He contended: "To be an almsman is shameful and humiliating. It is an unbearable condition for a self-respecting man." And he declared that this humiliation was a consequence of private property and contractual exchange: "It is only the mentality of a capitalistic environment that makes people feel the indignity of giving and receiving alms" (Mises [1949] 1998, p. 834).

However, these claims stand on shaky grounds. Mises himself had pointed out, in other passages of his *magnum opus*, that all our human endeavors depend on conditions that we do not control and that the present-day residents of developed countries are, as it were, "the lucky heirs of our fathers and forefathers" (p. 489; see also p. 481). It is true that this does not turn everybody into an almsman, yet this is not true in the sense

that we do not depend on others, but only in that we do not have to beg these benefactors for their assistance. Lucky heirs are tempted to be proud and to behave like spoiled brats. They might feel lucky, not only because they inherit the savings of their ancestors, but also because these ancestors have shown them the kindness of taking an early and permanent leave of absence. The horrible personal dependence of the heirs is not ever present to their minds. They may praise their good luck and their fortune. They do not have to feel grateful.

Moreover, why should "a self-respecting man" feel shame and humiliation if he is forced to be an almsman by the circumstances of his life? Mises assumes this, but it concerns a psychological or anthropological question, not an economic necessity. He would have been right, by definition, if he had referred to "a proud man." But in all other cases human dignity and self-respect do not seem to depend on one's material condition.

Finally, the feeling of "the indignity of giving and receiving alms" does not only result from the way of thinking that prevails in capitalism. As Mauss has taken great pains to demonstrate, and successfully so, such feelings are not limited to capitalistic environments or to alms. One of the very purposes of gifts in primitive societies is to humiliate the beneficiary.[8]

The Rejection of Private Property

Let us now turn from the psychological to the intellectual reasons for the rejection of gifts. Here, we should consider in particular that the revolt against gifts can be motivated by the rejection of the very principle of private property. We have seen that the existence of gratuitous goods presupposes a limitation of claims and obligations. There can be no gratuitous good if there is no private sphere of personal autonomy. Communities that do not know private property do not know gifts either. Those who reject private property willy-nilly reject the notion of gratuitousness as well.

Private-property orders are the fruit of a long and winding process. The principle of private property is rooted in the nature of man, most notably in his inalienable will, but it takes some effort and time to understand how this principle translates into claims, obligations, landed property, contracts, and so on. In the early stages of civilization, property rights were not well defined and there was no clear-cut distinction between payments and gifts. However, then as now, the benefits of the division of labor drove people together. Then as now, specialized producers needed to exchange their products. In the absence of clear-cut private property, this exchange took the form of a tit for tat. It took the form of a gift exchange that Malinowski

and Mauss (1922) still found in some primitive Pacific tribes at the beginning of the twentieth century.

In the minds of the people who live under such circumstances, the "exchange of gifts" is the very foundation of society, not because gift giving entails social bonds rooted in friendship and charity, but because without it there would be no division of labor at all. We find an enunciation of this idea in Aristotle's *Nicomachean Ethics*. He considered the desire to get even with one's benefactors to be the foundation of social life: "If men have received good, they seek to repay it: for otherwise there is no exchange of services; but it is by this exchange that we are bound together in society" (Aristotle 1893, bk. 5, chap. 5, sec. 6).[9]

Although this interpretation of gifts as the foundation of the division of labor is somewhat justified in the case of early civilizations such as ancient Greece, it becomes an anachronism if presented as an ideal for modern times. Whatever the deficiencies of private-property orders may be, one of their advantages is that they greatly facilitate the division of labor by defining and protecting private property. Long-term planning and commitments are put on a much more reliable basis than they could be in a vague and ambiguous tit-for-tat economy. And the gift economy, too, flourishes in this order, as we have already argued.

The Rejection of Inherited Wealth

Gifts are often rejected by outsiders with great vigor when they come in the form of wealth handed down from one generation to the next. The undeserving heir comes to own a sizable estate by sheer luck of birth and privileged social relations. Inheritance seems to create an appallingly unjust inequality of wealth. Scrooge McDuck became rich as a result of an entire life of hard labor and cunning investments. He *earned* his wealth. But why should his heirs, who did not labor as he did, and who might be clueless investors, come to own all of this? Would it not be equitable to share this wealth more widely? Would it not be just for the state to tax the heirs and distribute the proceeds to other people?

The premise of this sort of reasoning is that only work, and maybe also the investment of one's savings, should count as legitimate sources of wealth. But why? Consider that most forms of inheritance are not financial. Boulding (1973, p. 34) points out that a mother language, too, is an inheritance and that it can be quite valuable, as in the case of the English language in our contemporary world. He goes on: "Similarly, I may inherit a religion, a nationality, and a culture, which may be of more or less value to me, and the differential inheritance of these things may easily lead toward

increasing or decreasing inequality, depending on the nature of the process itself" (p. 34).

Furthermore, some of the most important activities in human life are performed outside of the market nexus. A woman who runs the family household, a full-time mother, earns no wage and no return on capital. Does this mean that she should not inherit her husband's wealth, all of it?

But what if the heir is not a loving wife of many years? What if the heir is not even a relative? What if he is a lazy and arrogant lad? Would it be unjust if he received all of the wealth of the deceased, by the good graces or the delusions of the latter? Rivers of ink have flown to disparage the legitimacy of such inheritance, but Pascal Salin begs to differ. He points out: "If the heir does not have 'the right' to inherit, nobody can receive this right, especially not statesmen or those to which they transfer the resources obtained by inheritance taxation" (Salin 2020, p. 67). He then goes on to emphasize that the entire case against the heirs is wrongheaded because *the real issue lies with the person who makes the bequest*. The proper point of view from which one should judge the moral legitimacy of an inheritance is *not the point of view of the heir but the point of view of the deceased*. After all, it is *his* wealth that he bequeaths. If he may spend it on his own consumption, why should he not also be free to turn it into a gift for others? Moreover, Salin argues that (2020, pp. 73–74):

> The life cycle and the cycle of generations are not separable from the cycle of patrimonies, of their birth, their development, their transformation, and their annihilation. The transmission of goods—by free transaction or by inheritance—is one of the essential means by which the unpredictable evolution of human history occurs . . . . The transmission of inheritance of a property, whether a home or a family business, is one of the means by which people establish a link between the past and the future. By confiscating an important part of the property, the state amputates not only a legacy, but the personality of the person who has created it. *Inheritance taxes should be removed, without exception.*10

The run-of-the-mill critique of inheritance also neglects to take account of its positive repercussions for *other* people. The sums of money that are saved before death in preparation for a future bequest cannot fail to promote, right now, one way or another, the productive activities of others. The building and preserving of capital, which will *eventually* also benefit the

heirs, is an *immediate* benefit to all kinds of other people. Inversely, the taxation of inheritance, and all laws that similarly reduce the incentives to save, do not only hurt the prospective heirs, but other people as well. We will study these issues in more detail in chapters 5 and 11. In the next chapter, we will deal in more detail with an important variant of the rejection of gifts out of a rejection of private property; namely, with the social philosophy of tit for tat.

1On *caritas*, see Lewis (1960); Wojtyla ([1960] 1981); and Benedict XVI (2005). Studies of different forms of love by contemporary Thomists are in Fritz Case (2012) and Mattison (2012). Plotinus (1962), in his third *Ennead* (tractate V), points out that *eros* moves from the inferior to the superior, whereas *agape* moves from the superior to the inferior, to lift it up.

2Aquinas ([1259–65] 2009, bk. 1, chap. 91, sec. 4) in his metaphysical speculations on the causes of love argued that love was motivated by kinship or connaturality. In his words: "Since each thing in its own way wills and seeks its proper good, if it is the nature of love that the lover will and seek the good of the one he loves, it follows that the lover is to the loved as to that which in some way is one with him. From this the proper nature of love is seen to consist in this, that the affection of the one tends to the other as to someone who is somehow one with him. Therefore, the more that through which the lover is one with the one he loves is greater, the more is the love intense. For we love those whom the origin of birth joins to us, or the way of life, or something of the sort, more than those whom the community of human nature alone joins to us" (see also bk. 4, chap. 42; idem 1948, I/II, q. 27, art. 4). Starting from love motivated by kinship, Durkheim ([1893] 2013, pp. 17ff.) points out that love is also motivated by complementarity.

3Boulding also highlighted two other traps: a Maussian "sacrifice trap" (grants are perpetuated out of a commitment to the ideals considered to be foundational for a society) and an "ignorance trap" (grants are perpetuated because there is no reliable information about their real impact). On sacrifice traps, see also Halbertal (2012, pp. 98–104).

4In chapter 10, we shall argue that when freedom gives way to coercion, when free gifts are turned into enforceable claims to sustenance, and when the welfare state replaces private charity, responsibility vanishes and the risks of abuse and dependence increase.

5See, for example, Elster (2010) and Cohen (2012), as well as his critique in Wolfelsperger (2010). The word *altruism* was coined by Auguste Comte (1851, pp. 614 ff., 691ff.), a staunch opponent of Christian faith and morals.

6See also our discussion of a utopian pure gift economy on pp. 168ff.

7Notice that, for the same reason, it is not certain that *malevolent* altruists will achieve their goals. Their *intentions* are evil, but their actions do not necessarily entail evil consequences, especially from a long-run perspective. (This has been duly emphasized by authors since the times of Mandeville and de Sade. The latter got carried away in concluding that good intentions are therefore irrelevant.) Moreover, let us notice that in a free society, the extent of malevolent altruism is limited by the private resources that it consumes.

8"The unreciprocated gift still makes the person who has accepted it inferior, particularly when it has been accepted with no thought of returning it. . . . Charity is still wounding for him who has accepted it, and the whole tendency of our morality is to strive to do away with the unconscious and injurious patronage of the rich almsgiver" (Mauss [1925] 2002, p. 83). "Through such gifts a hierarchy is established. To give is to show one's superiority, to be more, to be higher in rank, magister. To accept without giving in return, or without giving more back, is to become client and servant, to become small, to fall lower (minister)" (p. 95). Bourdieu ([1997] 2000, chap. 5, case study 1) develops this idea in more detail.

9He adds the following remark: "This is the reason why we set up a temple of the graces [charities, χάριτες] in sight of all men, to remind them to repay that which they receive; for this is the special characteristic of charity or grace. We ought to return the good offices of those who have been gracious to us, and then again to take the lead in good offices towards them" (Aristotle 1893, bk. 5, chap. 5, sec. 7). Laum (1924) and Gerloff (1932) have argued that modern market exchange developed out of religious sacrifice. Tit for tat was first organized around temples.

10Writing toward the end of the nineteenth century, Herbert Spencer ([1879] 1978, chap. 14) argued essentially along the same lines: "The right of gift implies the right of bequest; for a bequest is a postponed gift. If a man may legitimately transfer what he possesses to another, he may legitimately fix the time at which it shall be transferred. When he does this by a will, he partially makes the transfer, but provides that the transfer shall take effect only when his own power of possession ceases. And his right to make a gift subject to this condition, is included in his right of ownership; since, otherwise, his ownership is incomplete." Spencer went on to observe that "the growth of industrialism, with its freer forms of social relations, has brought increased freedom in the disposition of property; and it has brought this in the greatest degree where industrialism has most subordinated militancy, namely, among ourselves and the Americans."

4

Reciprocations

We have stressed the sacrificial nature of donations. They are made without any expectation of a return or yield. The donor truly abdicates money and other material goods for a transcendent cause. However, in practice, donations very often *do* involve various sorts of reciprocation. This is most notably the case in friendship and in family life. But reciprocation is also manifest in various hybrid and ambiguous cases, in which donations are mixed with market exchanges or are partially tit for tat. In what follows, we will study some of these complications.

Over the past century, under the influence of Marcel Mauss and his disciples, the concept of reciprocation has held center stage in the academic literature on gifts, including the economics of giving, altruism, and reciprocity (see Kolm and Ythier 2006). Maussian anthropology outlined a social philosophy of tit for tat. It asserted that all social relations are and should be rooted in reciprocation. From this point of view, genuine gifts do not exist at all. They are figments of the human imagination. In the real world, *all* social relations are based on various forms of reciprocation. They always involve a tit for tat, even if the persons involved fancy to believe otherwise.

Mauss proposed that scholars embrace this basic fact and its implications. Tit for tat is fundamentally different from the neat and finite contractual relationships that seem to spring from private property. Tit for tat is never neat. It is inherently ambiguous. It is never finished. It is therefore never possible to state precisely who has a claim on what or who is obligated to whom and to what extent. All contracts are embedded in a context of (often collective) obligations that are inherited from ancestors and bequeathed to the rising generation. It is therefore impossible to get even with anybody, to settle once and for all any mutual claims and obligations. And that is exactly how things should be.

Now, we agree that not all claims and obligations have a contractual origin. Moreover, there can be no doubt that ambiguous gifts exist and are rather pervasive. Anyone with a modicum of life experience will also readily confirm that tit for tat is more often than not cloaked in the mantle of genuine generosity. The social philosophy of tit for tat is therefore intellectually appealing. It has the rough charm of a brutal truth that dispels long-cherished illusions about selflessness and benevolent altruism. It seems to clear the way for honest human relations.

However, before we hasten to embrace it lock, stock, and barrel, we should ask a preliminary question: Is it true that clear-cut contracts and genuine donations do not exist at all? Does the Maussian case hold water? In what follows, we shall draw a line between reciprocation and donations. They must not be confused, not even in cases such as friendship and family life, where they are bound together. Rightly understood, reciprocation does not contradict the sacrificial nature of donations. Quite to the contrary, the particular sort of reciprocity that is found in friendship and in the loving relationships between family members can only be understood against the background of genuine sacrifice.

We shall start off by considering sequences of donations that have been misread by the champions of the social philosophy of tit for tat. This will be followed by a closer look at three prototypical social relations—friendship, family, and liberal arts—which are rooted in reciprocation. Then we shall discuss cases in which genuine gifts are deliberately mixed with market exchanges before concluding with a discussion of the Maussian theory of gifts.

Donation Sequences

The intended beneficiaries of a donation are not always the real or ultimate beneficiaries. A donee usually benefits from the gift he receives, but he is rarely the only beneficiary and not necessarily the ultimate one. For example, if James, the hardworking father of a family of five, receives an unexpected inheritance from a distant aunt, then he is the immediate but not necessarily the ultimate beneficiary. The inheritance might relieve him of the necessity to earn money income. But if he then spends more time relieving his wife, so that she can spend more of her own time educating the children, then the ultimate beneficiaries of auntie's largess are the children.

In economics, the problem of distinguishing between the immediate and the remoter effects of a given cause is called the problem of *incidence*. It

is an important problem in various areas of economics; for example, in the theory of taxation (see Böhm-Bawerk 1914; Rothbard 1970; Salin 2020). If the government increases the corporate tax rate, then the true incidence of the tax hike is not on the corporations themselves, but on their owners, employees, customers, and suppliers. For example, the owners of monetary capital would try to avoid investing in a firm subject to the tax hike. They would rather invest their capital in a venture that is taxed less. As a consequence, among the victims of that policy are also the customers, as well as the employees and suppliers, on whom the firm's owners would have spent their money in the absence of the tax hike.

The distinction between the intentional effects of a donation and its unintentional effects is similarly important for a proper understanding of the widespread phenomenon of sequences of donations. Indeed, one of the consequences of genuine gifts is to instill in the beneficiary feelings of gratitude and love toward his benefactor. The beneficiary will therefore likely wish to express these feelings, and the most appropriate way to do this is through expressive gifts. Such gifts are, in turn, likely to increase in their beneficiary (the initial benefactor) similar feelings of gratitude and love. Hence, there will be further gifts and still further gifts, without any logical end to such a sequence.

In the eyes of a superficial observer, who sees that *A* gives to *B*, then *B* to *A*, and so on, this sequence of events might very well be indistinguishable from ordinary market exchange or from tit for tat. He may come to believe that *B* transfers an economic good to *A in reciprocation for* another economic good that he has received from the latter. Accordingly, the reason why *A* has given to *B* is *in order to* oblige *B* to provide some sort of payment. We recognize here without difficulty the characteristic point of view that we have already met when discussing the question of customary gifts. It is the point of view of those who consider that there is no such thing as a genuine gift at all, but only tit for tat in the guise of a phantom called a gift.

What is the bone of contention? Tit for tat under the cloak of a gift does exist and is probably widespread. While it is impossible to know just how widespread it really is without looking into other people's hearts, the fact itself is beyond dispute. But the salient issue is elsewhere. It concerns the question of *whether there may be anything besides tit for tat*. Are genuine donations possible? Is there such a thing as a genuine gift? In the light of what we have stated above, there cannot be the slightest doubt that the answer is affirmative. What remains to be done now is to pinpoint the error in the superficial interpretation of donation sequences.

The nub of the error is the failure to distinguish between the intentional and unintentional effects of gifts. There are indeed people who transfer property to others without the slightest intention of benefitting those others, but only and exclusively to oblige them to reciprocate. Such transfers are not genuine gifts. By contrast, the genuine donor gives without expecting any return. Yet his donation *creates a new state of affairs*, and this new reality is likely to prompt a reaction from the beneficiary.

For example, if the donation was designed to improve his material living conditions, and if it did have this effect, then the beneficiary will not fail to perceive the improvement. And just as he loves his life and his well-being, he cannot fail to similarly love the *causes* of his life and of his well-being. Therefore, his love will also be directed to his benefactor, especially if this benefactor is a genuine benefactor who acts without self-interest. And the beneficiary may wish to express this love, for the lover wishes the loved one to be happy and knowing that one is loved by others is conducive to such happiness. As a consequence, the initial benefactor and his beneficiary may very well develop a lifelong friendship which they repeatedly express through various forms of donations of time and material goods.

Reciprocal Relationships

Some of the most important social relations are by their very nature rooted in reciprocation. This concerns friendship and family life most of all, but also the liberal arts to the extent that they are practiced in a professional context. In all these cases, it may seem to be difficult to disentangle genuine donations—genuine gifts—from the ordinary give-and-take. But as we shall see, these difficulties vanish once we come to a proper understanding of reciprocity, or rather of the different meanings that reciprocity may have.

Friendship

Any friendship, any loving interpersonal relationship, involves by its very nature some reciprocity. Friendships are *made*. There is no friendship between Peter and Paul unless Peter loves Paul *and* Paul loves Peter. Where there is no reciprocation, the friendship is unfulfilled (Wojtyla [1960] 1981, p. 85). But this reciprocity is very different from reciprocation in the sense of a tit for tat or market exchange. It is a give-give, rather than a twofold give-and-take. It is a happy correspondence rather than an arrangement for mutual benefit. Friendship might be *initiated* from one side—and to this extent it would be similar to an exchange, which may also be initiated by the seller or the buyer—but friendship differs in that it is

initiated by an expression of love. It expresses unconditional devotion.

Love may be expressed by providing a service, and very often is. But a genuine love service does not seek a return. It seeks to communicate an inner disposition. And the person who reciprocates friendship does not return a service or a pleasant string of words in order to please. He *responds* by expressing his own love for the other.

The pure core of friendship is often embroiled in, and sometimes corrupted by, other aspects of a personal relation. Peter may be Paul's business partner; he may be Paul's employee, his employer, his father, or his teammate. Their friendship would then be part and parcel of a complex web of numerous partial bonds. It would be *one* dimension of their overall relation, but not the only one. This is why a superficial observer is likely to misinterpret the meaning of friendship. Seeing the strong presence of tit for tat, and knowing the corruption of the human heart, he would end up denying the very possibility of genuine friendship. He would hold that Paul gives his friendship *in exchange for* Peter's friendship, and vice versa. As the spurious philosophy of tit for tat has it, there is no such thing as give-give. There is only give-and-take. But as we have seen, this conception is untenable, for love exists and the very point of love is to love without compensation.

The Family

Arguably the most important forms of friendship are formed within families. Max Weber (1922, p. 195) famously argued that marriage is the most important foundation of the house community. Within that community, claims and obligations are not calculated and balanced. There, communism prevails as far as consumers' goods are concerned.

In the Christian ideal marriage, the spouses' sacrificial gifts to each other completely supplant all material and selfish motivations (see Wojtyla [1960] 1981, pp. 86ff.). It is true that the spouses are engaged in a division of labor, and they draw the greatest benefits from this cooperation. Typically, they are also drawn to each other by sexual appetites. But all these interested motivations should be sanctified by the deepest friendship, by spousal love. And the same ideal prevails with respect to filial relationships. Although children do contribute to the material output of the household from a certain age and are likely to tend to their parents in old age, these motivations to raise children should be sublimed, through friendship and love, into pure gifts.

It goes without saying that no human family can fully measure up to this lofty ideal. Real human beings are invariably torn by error, fleshly

appetites, and vices. They do get married for selfish and material reasons, and they remain in the marriage bond for the same reasons. From a juridical point of view, marriage is a contract with random claims and obligations (*contrat aléatoire*). The spouses "exchange their vows." When they appear in front of the priest, or in the town hall, they promise to love and support each other in good and bad times. It is not clear from the outset how much each of them will "get out of " the marriage. They vow to let the dice fall as they will and to honor their own promises come what will.

All of this does not change the importance of the family as an ideal. This ideal serves as a guiding light in the dark nights of temptation and sin. But the fact remains that family relations, even within the nuclear family, are deeply ambiguous. They are ambiguous not in the sense that true gifts are impossible, but in the sense that no man is able to look into the hearts of others, and more often than not, it is quite difficult to discern one's own heart (George Steiner [1989] has discussed this in a different context, the interpretation of art).

This ambiguity seems to be strongest between the spouses, because of the financial, economic, and sexual dimensions of their relationship. It is weakest in the love between parents and children. In dealing with the hapless infant, the handicapped child, and the frail, senile, and destitute elderly, pure love shines through most brightly. Filial love is emblematic of the love community that the family can and should be.

The Liberal Arts

Another important example that shows how genuine donations can be embedded in a context of ordinary give-and-take are those professions which revolve around the ultimate leisure goods of truth, justice, and beauty.

Teachers, researchers, medical doctors, lawyers, auditors, painters, writers, musicians, and various other professionals practice the *liberal arts*, which are defined in opposition to the *minor or servile arts* such as those practiced by masons, drivers, marketing directors, and CEOs. The difference is that a liberal art cannot be perfected without devotion to some ultimate criterion which is removed from the arbitrary will of a patron. It is therefore impossible to purchase a definite result. It is impossible to purchase salvation from a priest, victory from a football player, beauty from a painter or musician, or a favorable decision from a jurisconsult. In all such cases, it is *competent effort* that is sought and remunerated.

The Mantle of Prices

In chapter 2, we saw that prices may be disguised as genuine gifts. But genuine gifts may also be concealed under the mantle of prices. The donee may deliberately *choose* the hybrid, whereas he could also have chosen the pure form. Mises provides the following examples:

> 1. When, for humanitarian reasons, I do not buy pencils in the stationery store, but make my purchase from a war-wounded peddler who asks a higher price, I aim at two goals at the same time: that of obtaining pencils and that of assisting an invalid. If I did not think this second purpose worthy of the expense involved, I should buy in the store. With the more expensive purchase I satisfy two wants: that for pencils and that of helping a war veteran. (Mises [1933] 2003, p. 189)
>
> 2. The businessman who owns the whole firm may sometimes efface the boundaries between business and charity. If he wants to relieve a distressed friend, delicacy of feeling may prompt him to resort to a procedure which spares the latter the embarrassment of living on alms. He gives the friend a job in his office although he does not need his help or could hire an equivalent helper at a lower salary. Then the salary granted appears formally as a part of business outlays. In fact it is the spending of a fraction of the businessman's income. It is, from a correct point of view, consumption and not an expenditure designed to increase the firm's profits. (Mises [1949] 1998, p. 242)[1]

Genuine gifts combined with genuine prices come in two hybrid forms. In some cases, such as Mises's first example, the genuine gift is indeed combined with an exchange. The donor would have bought a pencil anyway but decided to buy it at a higher price (compared to alternative market prices) from a war-wounded peddler.[2] In other cases, the gift is not combined with an exchange but simply takes the form of an exchange. If the businessman in the second example does not need an assistant at all but hires a distressed friend anyway, then he provides his friend with a pure gift and obtains nothing from the latter in exchange. More precisely, the businessman obtains nothing that he would pay for.

In the above cases, the hybrid serves the purpose of *disguising* the gift character of a transfer. Genuine gifts are dressed up in the mantle of prices. But why should a donor strive to disguise such a beautiful deed? In chapter 3, we saw that pure gifts might be shunned for various reasons; for

example, because they are repugnant to the self-love of the beneficiaries. In later chapters, we shall argue that hybrids also serve to circumvent the law. Whatever the concrete explanation might be, we see here another illustration of Carl Menger's insight that observable human behavior is a complex phenomenon influenced by many and different causes. Observation does not and cannot reveal all the causes that come into play in any concrete action. In order to understand these causes, introspection (in the case of one's own behavior) or psychological analysis of another person's intentions is necessary.

Market prices may serve as a mantle not only for genuine gifts, but also for tit-for-tat exchanges. A well-known example in the academic world is the invitation of guest professors to give classes and seminar presentations. Such guests are more often than not expected to reciprocate by inviting their host in turn. Consider the following hypothetical example. Professor Miller can invite guest professors to work with him at his university's expense. There are two candidates, *A* and *B*. Candidate *B* is the better scholar and works in Miller's field, but he has no budget to reciprocate the invitation. Candidate *A*, on the other hand, works in a different field but controls a budget for visiting professors; moreover, *A*'s university is conveniently located in a beach resort town. If Miller invites *A*, then *A*'s visit to Miller's university will look like an exchange of scientific work for money. But under this mantle, Miller will initiate a barter trade.

In bureaucratic environments, cloaking tit for tat with market prices is a standard technique for circumventing legal restrictions. If Miller had been the director of his own firm, he would not have wasted any money on inviting an incompetent guest in order to get to the beach. Similarly, if Miller had been completely free to spend his research budget as he wished, he might have spent it directly on a trip to the beach. Professor Miller invites candidate *A* only because he is not free to use the research budget as he sees fit. He may not directly spend it on a trip to the beach and therefore seeks to reach his goal in a roundabout way.[3]

Gifts According to Marcel Mauss

In the early twentieth century, Bronislaw Malinowski (1922) and Marcel Mauss ([1925] 2010) studied primitive communities in order to obtain a deeper understanding of the universal foundations of all human societies. They found that the members of these primitive societies had very

different conceptions of the meaning of exchange and gifts than members of developed industrial societies. Most notably there was no clear distinction between mine and thine. Mauss was especially intrigued by the fact that the inhabitants of that primitive world did not seem to know gifts as we like to imagine them; that is, free gifts that come without any obligation of compensation. He generalized these findings into an essay on the nature of the gift. Here he argued that Western societies should return to the good old days of the past. He made four related claims.[4]

One, the conditions that he found to prevail in the primitive societies that remained at the outset of the twentieth century reflected a natural order. In such an order, there are no "free gifts" as we conceive of them today and there are also no exchanges such as we make today. All social relations are embedded in open-ended chains of claims and obligations that are rooted in custom. There is no such thing as a payment that would once and for all settle a claim. One consequence is that, even on a purely conceptual level, economic goods cannot be separated from the persons who previously held them in possession. Even goods that are exchanged are never completely separated from the men who exchanged them. All goods have an unbreakable bond—a Maori *hau*—with their previous owners. "Things sold still have a soul. They are still followed around by their former owner, and they follow him also" (Mauss [1925] 2010, p. 84). All payments, all transfers of goods, are part and parcel of an ongoing process that springs from ancient claims and obligations. This process has no beginning and no end. Claims and obligations live a perennial life of their own, disincarnated from individual choices and actions.

Two, this natural order has never ceased to exist. It has been *partially supplanted* by legal conceptions of Semitic, Roman, and Germanic origin. But since it is the natural state of affairs, it could not and cannot be abrogated.[5] At present, it leads a subliminal existence. It lingers on under the surface of the official law. But it is returning to its former glory. Its major driving force is the burgeoning welfare state. In the words of Mauss:

> All our social insurance legislation, a piece of state socialism that has already been realized, is inspired by the following principle: the worker has given his life and his labour, on the one hand to the collectivity, and on the other hand, to his employers. Although the worker has to contribute to his insurance, those who have benefited from his services have not discharged their debt to him through the payment of wages. The state itself, representing the community, owes him, as do

> his employers, together with some assistance from himself, a certain security in life, against unemployment, sickness, old age, and death. ([1925] 2010, p. 86)

He goes on:

> All such morality and legislation corresponds in our opinion, not to any upheaval in the law, but a return to it. . . . Very soon they will be similarly associated in French social security schemes. Thus we are returning to a group morality The themes of the gift, of the freedom and the obligation inherent in the gift, of generosity and self-interest that are linked in giving, are reappearing in French society, as a dominant motif too long forgotten. ([1925] 2010, p. 87)

Three, the natural order of yore provides a normative benchmark for the assessment of modern legal orders, which arose in later periods and introduced the artificial separation between mine and thine, as well as the corresponding distinction between property law and the law of persons (p. 5).

Four, Mauss championed a return to what he believed to be the old, natural state of affairs. He considered that this return could build on the remnants of the old order, which had survived into the present day: "We should return to laws of this kind. Thus we can and must return to archaic society and to elements in it" ([1925] 2010, p. 88). "Thus, from one extreme of human evolution to the other, there are no two kinds of wisdom. Therefore let us adopt as the principle of our life what has always been a principle of action and will always be so: to emerge from self, to give, freely and obligatorily" (p. 91).

Mauss also drew various methodological conclusions from his findings. Most importantly, social reality could not be meaningfully divided into parts. Everything was related, bound up in a complex nexus of claims and obligations, past and present. This context could only be understood when social research focused on the analysis of total wholes, rather than on individual decision-making (see [1925] 2010, p. 102).

The Maussian point of view was mirrored in other intellectual and artistic movements of the early twentieth century that have shaped our present world. *Fin de siècle* intellectuals were convinced that modern times were decadent and that a genuine reform required a return not just to the conditions of a recent past, but to very ancient roots. In painting and sculpture, there was a quest for "primitive" forms and themes (Paul

Gauguin, Pablo Picasso, and many others). In the liturgy of the Roman Catholic Church, a similar movement sought to overcome Roman formalism through a reinterpretation of Mass as a communal gathering (for example, by treating it as a meal rather than a eucharistic sacrifice and orienting the assembly concentrically rather than linearly). Similarly, economic reformers of the time sought to reintroduce corporatist labor relations to replace free contracts (the guild movement).6

Unsurprisingly, therefore, the new philosophy of tit for tat enjoyed a remarkable success, especially among those who rejected the modern capitalistic economy. But is it solid? Let us highlight three of its major shortcomings, relating to the sheer logic of Mauss's arguments presented.7

First off, it is unwarranted to champion primitive social conditions as the sole benchmark for assessing the merits of a modern society. This is not to say that a return to such conditions is undesirable. But why is it more natural *not* to distinguish between mine and thine than to do so? It is spurious to argue that an older order must be better than a newer order just because it is older. Few people would argue that modern systems of transportation are inferior to the ones that prevailed in the glorious days of the horse and buggy or that cell phones should be discarded in favor of smoke-signal communication. Many good things need time to ripen. Why should the legal order be an exception?

Another flaw is to be seen in Mauss's objection to the "cold, calculating mentality" (p. 61) and "tradesman morality" that the market order has allegedly given rise to (p. 83). Even if this were true, it would be unwarranted to assess the market order exclusively from the point of view of this or other deficiencies. A balanced overall judgment also needs to consider the advantages that a market order brings to the table. But Mauss would have none of this. He blithely disregarded the benefits springing from property law and contracts. In his account, modern legal institutions were forced upon mankind in a top-down revolution that brought nothing but rip-offs and conflict. He did not even consider the possibility that these institutions may have been, and were, introduced bottom up, that they may have been endorsed willingly precisely because they provided invaluable services to all parties involved. We have referred to the case of common resources, which provide very strong incentives for all members of the co-owner collective to privatize the resource before it is depleted. In chapter 6, we will present Carl Menger's theory of the spontaneous emergence of institutions such as language, law, and money. Menger convincingly argued that law and exchange were not creatures of the state or of top-down decision-making. They grew from below, in response to very practical

problems that ordinary people had to solve in their daily lives.

Third, we have to discard the idea, dearly held by all Maussians, that compassion and solidarity can only exist when they are based on open-ended tit for tat.[8] As they see it, only such unbounded tit for tat is solidarity inducing.[9] Market exchange, based on clear distinctions between mine and thine, and bound by a beginning and by an end, is held to be coldhearted and individualistic. The fizziness and messiness of open-ended tit for tat promotes trust, solidarity, and social cohesion, whereas market exchanges—through which deals are *concluded*—entail precisely the opposite tendencies.

This line of argument echoes Émile Durkheim's ([1893] 2013, pp. 12–16) contention that market exchange is by and large amoral and therefore worthless as far as community building is concerned. Social cohesion—Durkheim's preferred catchword—simply *cannot* result from market activity. Although the profit-driven division of labor entails a solidarity between its members, this solidarity is morally worthless, because it does not help to integrate these members *into a larger social body that is able to act* (pp. xvii, 85). True solidarity and cohesion have to be brought into the market from outside, most notably in the form of suitable laws and regulations (p. 182 and passim).

However, these definitions of morality and solidarity are specious and reductionist. They are specious in that they reflect the point of view of a ruler, or would-be ruler, who appreciates other people primarily for their disposition to obey central authority. They are reductionist because it is manifestly not true that markets and firms as such are amoral or immoral. To be sure, business ethics are *different* from the ethics of the liberal arts and from family ethics. But this does not change the fact that business does have a distinct moral dimension. The British philosopher Harry B. Acton (1993, p. 56) has put this well:

> It is absurd . . . to criticise the man of business for not exhibiting the devotion of a hard-working doctor, the sympathy of a schoolteacher, or the self-sacrifice of a soldier. His circumstances do not normally call for these virtues, but for foresight, honesty, reliability in keeping promises, and a readiness to accept the consequences of the risks he has to take.[10]

Furthermore, it is not true that open-ended tit for tat—and the ambiguity and legal uncertainty that result from it—makes people more

empathic, kindhearted, and caring. Quite to the contrary, it is precisely when people have to interact in a juridical limbo, in which claims and obligations overlap or are indistinguishable, that these qualities tend to vanish. These conditions favor greed and avarice and benefit the pushy and the strong at the expense of the meek and the weak (see Schoeck [1966] 1987, chap. 9; 1970). After all, the purpose of property rights is to protect not the strong but the feeble.

Finally, it is not true that free gifts—genuine gifts—do nothing to enhance solidarity. When the difference between payment and gift is clear, charity is based on truth. It is the free gift that makes donors and donees responsible and unites them in a communion based on mutual understanding and appreciation.

Some contemporary research in psychology seems to bolster the claims of Durkheim and Mauss. For example, Piff et al. (2012) found that "higher social class predicts increased unethical behaviour." Piff et al. asked the participants of their study to classify themselves as lower, middle, or upper class and then asked them whether they broke the traffic laws, stole, lied in negotiations, and cheated in competitive situations; how often they did so; and whether they had a favorable attitude toward greed. It turned out that the lower-class individuals in their study tended to be less immoral than the upper-class individuals. These results seem to indicate that immoral behavior is either a cause or a consequence of wealth, or both a cause *and* a consequence of it. Similarly, Stellar et al. (2012) argued that a higher social class predicts a reduced emotional response to suffering. Upper-class people tend to be more indifferent to the pain of others than lower-class people. In their study, too, economic success turned out to be causally related to amoral and immoral attitudes and behavior.

However, empirical studies of this kind do not contradict our contention that clear-cut property rights are favorable to empathy, compassion, and actively caring for others (also see Habermann 2017). They do not even demonstrate any general implications of social status or wealth. What these studies do show is that in the current interventionist world, in which property rights are infringed in numerous ways, those who make it to the top of society often seem to be even more indifferent and unethical than others. As we shall see in part three, this is fully in tune with the conclusions of economic theory. Monetary interventionism, to name just this obvious case, makes it possible to amass great wealth not through

savings and working hard to serve others via market exchange, but through government bailouts and credit from the printing press.

Whatever the flaws of his conceptions, Mauss was right on track in observing that in our world, social relations are not fully based on private-property rights, but on a whole variety of norms, sometimes of very ancient origin, which exist side by side with modern private-property systems. The introduction of property rights was not a one-point event that switched social relations from primitive to modern conditions in one mighty stroke. It is an ongoing process.

When individual private-property rights replace communal property (such as the *commons*), there are not only winners, but also losers, especially in the short run. Furthermore, it is not always obvious which goods can be owned, how they can be appropriated, and to what extent. Scholars and practitioners still struggle to answer these questions today, as any cursory glance at the contemporary debates around environmental law, intellectual property, and maritime rights reveals (see for example Block and Nelson 2016). Moreover, and most importantly, the process of capital accumulation drives technological change, which constantly brings to the surface new problems related to the definition of property rights.

Mauss was also right in highlighting the instrumental role of the welfare state in engineering the backlash against private-property rights. Today, social relations are more often than not a messy mix of different forms. Certain forms (such as the genuine gift), despite all appearances, are vanishing because the preconditions for their existence (clear-cut property rights) are in the process of being wiped out.

Modern man is free to adopt a legal framework that mirrors primitive conditions. Mauss and his present-day followers might very well succeed in turning our civilization around. But a return to primitive social relations would not facilitate human flourishing. It would be a drastic impediment to the production of material goods. It would promote conflict, strife, and war. It would throw women back into slavery.[11] And last but not least, it would deprive mankind of the joys that come with gifts and other gratuitous goods.

In a Maussian economy of gift swapping, genuine gifts would be impossible. They would be *inconceivable*. There would be no standard by which one could distinguish a gift from a non-gift. All activities would be somehow and to some extent (but not clearly and definitely) services

rendered in compensation for other (equally indefinite) services received. It would be impossible to break out of the rights-obligations nexus. Gifts become conceptually possible, and can be experienced, only in civilizations that are built on the distinction between mine and thine. This is why Malinowski, to his astonishment, found no free gifts in the primitive societies on the Trobriand Islands near New Guinea at the outset of the twentieth century.

Unfortunately, Mauss and his followers drew the unwarranted conclusion that free gifts do not *really* exist anywhere. Glorifying a return to primitive conditions, they paid an enormous disservice to civilization. It is only when each person's obligations are clearly defined, as they tend to be in an economy based on the principle of private property, that it becomes possible to do something beyond and in excess of one's obligations. Only then do genuine gifts become conceivable. Only then does true gratuitousness become a reality.

1He adds in a footnote: "Such overlapping of the boundaries between business outlays and consumptive spending is often encouraged by institutional conditions. An expenditure debited to the account of trading expenses reduces net profits and thereby the amount of taxes due. If taxes absorb 50 per cent of profits, the charitable businessman spends only 50 per cent of the gift out of his own pocket. The rest burdens the Department of Internal Revenue" (Mises [1949] 1998, p. 242).

2In late Scholastic price theory, most notably in the writings of Juan de Medina, such gifts were known as *donatio admixta*. See Chafuen (2003, p. 92). They seem to be at the heart of what Benedict XVI calls "hybrid forms of commercial behaviour," which he would like to see developed on a greater scale as a way of "civilizing the economy" (2009, sec. 38). Exchange-gift hybrids remind us that social phenomena typically have multiple causes. They are "complex" in Menger's (1883) sense.

3Below we shall generalize this consideration. Bureaucratic management, itself a fruit of government interventionism, tends to blur the distinctions between market exchange and gifts.

4The following passages are mostly quoted from the concluding remarks at the end of Mauss ([1925] 2010). Köpping (2002) is right when he points out that these conclusions provide the key to properly understand Mauss's theoretical system.

5"This morality is eternal; it is common to the most advanced societies, to those of the immediate future, and to the lowest imaginable forms of society" (Mauss [1925] 2010, p. 89).

6For a critical assessment of primitivism from an anthropological point of view, see Sandall (2001).

7For a comprehensive discussion of Mauss's theory from an anthropological and political point of view, see Sahlins ([1974] 2017, chap. 4, pp. 134–67).

8The late Mary Douglas put this very clearly: "There should not be any free gifts. What is wrong with the so-called free gift is the donor's intention to be exempt from return gifts coming from the recipient. Refusing requital puts the act of giving outside any mutual ties. Once given, the free gift entails no further claims from the recipient. According to Marcel Mauss that is what is wrong with the free gift. A gift that does nothing to enhance solidarity is a contradiction" (Douglas 2002, pp. ix f.).

9Derrida (1991), a radical Maussian, argues that all gift giving, by the inner logic of the act, entails a reciprocal obligation, even if this obligation is *expressis verbis* excluded by the donor and the beneficiary. We have commented on the underlying fallacy. For a more detailed discussion along with occasional comments on Derrida, see Marion (2002, 2011).

10See also Olivi ([1295] 2021, I, pp. 69–79); Keller (1912); Rand (1964); Sternberg (1994); Barry (1991, 1998); Hülsmann (2008b); Bouillon (2011); Rhonheimer (2015); Eabrasu (2018); Hoppe (2021).

11See Mises (1969), pp. 87–107).

Part Two

Gratuitous Goods in a Free Economy

5

The Economics of Donations

Donations have causes and consequences that spring from their *purpose*. But they also have causes and effects that spring from the fact that they are human *actions*. Leisure activities and gifts exist because there are people who effectively choose to donate their time and material resources. These choices, their causes and consequences, are the subject of the present chapter.

We will start off discussing to what extent donations are different from all other choices. Thereafter we will study how donations relate to market activities—how they compete, but also nurture and complement each other.

At the same time, however, we will pursue a second objective. Real-world economies are not free-market economies. They are not the product of unhampered buying, selling, and donating. They are also influenced by the legal, regulatory, and administrative interventions of the state, and increasingly so. What is the impact of these interventions? As we shall see, this question is central for the economics of gratuitous goods.

To provide an answer, we need to apply the traditional method of political economy. It involves two steps.

It is first necessary to consider donations and markets in a hypothetical setting in which all social relations are based on the full respect for private-property rights. This is what we shall do in part two, which deals with gratuitous goods in a *free society*; that is, in a hypothetical society unhampered by violations of property rights. Then, we can bring into play those human actions that are based on violations of private-property rights or on threats of such violence. This is what we will do in part three.

This two-step procedure is inconvenient and fraught with various dangers. It forces us to think and talk about a *hypothetical* free economy and a *hypothetical* free market that do not have much to do with the real world. In our world, as in all human worlds that have ever existed, property rights

are imperfectly defined and protected. Alas, for the human mind, the only way to understand the workings of our world is to follow the method that we just outlined. The only way to understand how gratuitous goods are influenced by violations of property rights is to compare a hypothetical world without such violations to a world in which they are present.

Donating as a Category of Human Action

Modern economics is a theory of action, rather than a theory of goods. Its basic categories are not the qualities, quantities, and prices of *commodities*, but categories of *action*, such as choice; subjective value; time; means and ends; and errors and successes. Ludwig von Mises therefore called the general theory of action praxeology—the logic of action. He reserved the name of economics for the particular branch of praxeology that deals with human action based on economic calculation.

Donating is a general category of human action. It has particular causes and consequences that set it apart from other types of action. The most straightforward way to appreciate these particularities is by focusing on the way donations are evaluated.

To evaluate an economic good means to compare it in various ways to other economic goods. Three types of comparison hold center stage in economic analysis: (1) the comparison between a good and the ends that it serves; (2) the comparison of some units of the good with other units of the same type of good; and (3) the comparison of the good with other goods that serve other ends. All three types usually come into play at the same time. We will look at the details in the next section. Here we need to elaborate on the salient issue which we pointed out in chapter 2.

Donations stand out from all other forms of human action, both within and outside of market economies, in that they deliberately neglect the first type of comparison. A donation is evaluated according to comparisons (2) and (3), which is why donations are subject to economic law and we are able to perform an economic analysis of them. But donations are not evaluated according to comparison (1). They are not compared to their ends. More precisely, they are not *proportioned* to their ends.

This does not mean that donations have no ends. All economic goods have purposes. All human actions pursue objectives. Neither does it mean that the donor ignores the causal relationship between the donation and its ends. Of course he knows why he makes this donation rather than another one or rather than none at all. Of course his choice is motivated by the purpose of the donation. What we mean is that donations do not serve the

donor. They are not useful to him in the sense of being intended to convey to him any advantages or profit.1

The reason is that donations involve sacrifice. Where there is no sacrifice, the means are proportioned to the end. They are from the outset chosen in such a way that they have a *lower value than their end*. In this sense, they are chosen to be subservient to the decision-maker. The acting person seeks to create a (subjective) profit by deploying means that for him have a lower (subjective) value than the (subjective) value of the anticipated end result of his action. Likewise, in a market economy, an entrepreneur hires factors of production to fabricate products that he will sell to his customers. The factors of production are supposed to serve him. He will consent to hire them only at such prices that will allow for a monetary profit (see Hülsmann 2002).

The same thing holds true for all activities which are pursued for pleasure, such as play, sport, dance, sex, and gastronomy. That they are pursued for pleasure, after all, means that they are not pursued out of genuine devotion, for their own sakes. There is a difference between painting for the market, painting for pleasure, and painting out of devotion. Only in the last case does the category of sacrifice come into play. Only in this case are the means not proportioned to the end. There is no weighing of the hours committed, the pains taken, and the money spent against the painting. By contrast, if the purpose is to serve the market, then the hours, the pains taken, and the monetary outlays are brought into a reasonable—profitable— relationship with the monetary result. Otherwise, the painter would not even get going. And even if the painter's aim is only personal pleasure, he will take care to bring the means into a reasonable relationship with the pleasure that he hopes for.

Where there is sacrifice, the means do not serve the donating person. Where there are genuine donations, made out of genuine devotion, the value proportion between the means and the end does not count. We already pointed out in chapter 2 that the very question of a proportion between means and ends quite often makes no sense at all. An artist devoted to beauty will not assess the value of the means in relation to the result. He *could* not do this, even if he tried. How can beauty be measured? How can finite means ever be in a reasonable relationship with an infinite end?

For these reasons, acts of donation stand out from all other actions. As we shall see, they also stand out with respect to the consequences that they entail for the market economy and for civilization more generally. Civilization crucially depends on the ability and willingness of at least some

of its members to make genuine sacrifices, at least some of the time. Fortunately, there have always been men and women who are ready to make them. But this disposition is not written in stone. It depends on a variety of factors that we will discuss in the remainder of the book.

Donations stand out from all other actions. They also do not fit into any of the three conventional classes of economic activity: production, consumption, and exchange. If this scheme covered all economic activity, then donations would have to be classified as acts of consumption, as acts of production, or as acts of exchange. Let us therefore see how donations fit into this classification scheme.

By definition, donating cannot be classified as an exchange. We have discussed this in some detail and do not need to dwell on this point. It makes much more sense to classify donations as acts of consumption, especially if donations are interpreted in light of the Misesian theory of autistic exchange or in light of the Beckerian concept of social income.

Nevertheless, as we have seen, this classification is problematic in that the donor appears to *necessarily* be one of the donation's ultimate beneficiaries because donation becomes a consumers' good *for him*. But this would directly contradict what we have found to be the distinguishing characteristic of a donation; namely, that the intended beneficiary of a genuine donation is always something else or someone else. A genuine donation necessarily transcends the donor. It is *intended* to transcend his own planning, his own needs, his own desires, his own satisfaction.

Moreover, whenever donations are made in the form of gifts, the donation involves *two* persons and therefore two points of view. Interpreting a gift as a consumers' good *for the donor* is plausible from a Misesian or Beckerian perspective. But what about the donee? The donee might take great pleasure in receiving an expression of friendship in the form of a gift. He might *eventually* consume the gift or transfer it to his family members. But he may also use it in his business. The act of receiving is therefore not necessarily an act of consumption for the donee.[2]

If donations are not forms of exchange nor of consumption it would appear that they have to be classified as acts of production. And indeed, this makes much sense if we recall that donations involve saving, the renunciation of current consumption. Classifying donations as production also makes sense in that donations are means for the attainment of (transcendent) ends that are different from the means—in distinct contrast to acts of consumption such as dance and play, which usually are ends in themselves.

However, as we have seen, there is a categorical difference between

donations and ordinary acts of production. The latter always seek to make sure that the value of the means is less than the value of the ends, whereas in the case of donations there is no such calculus, which at any rate would be absurd. It therefore appears to be necessary to regard donations as a distinct economic category of its own.

The Subjective Value of Donations

Donations are made and received because they are valuable. In economic analysis, the word "value" has two meanings. It can refer to the personal or subjective significance of an economic good, and it may refer to its market price. In the case of donations, there can be no market prices by definition; we shall therefore be preoccupied with the first meaning only.

Subjective value is the relative importance of an economic good for an acting person who has to decide whether he wishes to own or enjoy more or less of that good, rather than other goods that he could own or enjoy alternatively, including his own time. Such decisions are obviously made in light of the advantages and inconveniences of the good compared to the pros and cons of other goods that could be chosen instead.

Economists stress that all decisions are personal or subjective because they are *not completely* determined by the pros and cons of the alternative choices. All decisions are made *in light of* the pros and cons of the alternatives, but *not only because of them*. If two persons are confronted with exactly the same alternatives, each of them might choose differently. If the same person is confronted with the same alternatives at different moments in his life, he might make a different choice each time. There is always a singular personal element that is effective in choosing, an element that cannot be reduced to the material or objective context in which the choice takes place. This element is called subjective value.

Subjective value is the foundation of the economic analysis of human action and of the market economy in particular. The expression refers to the element of personal freedom, even arbitrariness, that is inherent in human choice. But this freedom is subject to economic laws. Most notably, we may distinguish four universal laws of subjective value: (1) the first law of value, according to which larger quantities of homogeneous goods have a higher subjective value than smaller quantities of the same good; (2) the law of diminishing marginal value, according to which each unit in a stock of homogeneous goods has a lower subjective value than each unit of the same good in a smaller stock—in other words, the *marginal* value sinks as the stock grows; (3) the means-ends law of subjective value, according to which

means have a lower value than the ends they serve; and (4) the law of equilibrium, or law of diversification, according to which agents seek to own the (subjectively) right balance of all the different goods that they own.

The laws (1), (2), and (4) are universal laws of human action. They hold true for all economic goods, *irrespective of the social and political context and irrespective of the concrete uses of these goods*.[3] They also hold true when such goods are donated rather than exchanged.[4]

According to the law of diminishing marginal value, if the stock of a homogeneous good increases, then the value of each unit of the (now) larger stock is lower than the value of each unit of the (previously) smaller stock. The reason is that the additional units allow us to do more things. But these things are necessarily *less* important to us than the things that we would have done had we only had the help of the units of the smaller stock.

If I have ten hens and hand over two as a gift to my neighbor, then to me, the value of each of the remaining eight is now higher than the value of each of the ten that I had before. The inverse holds true for my neighbor, the beneficiary of my largess. To him, each hen now has a lower relative value than it would have had if he had not received my gift.

Our hypothetical gift has direct implications for all other activities, most notably the market activities of donors and beneficiaries. The fewer hens I have, the higher the price that I would ask in exchange for any of them tends to be and the more time or money I'll need to spend on other food. The inverse holds true for my neighbor. He will not be ready to pay quite the same price for additional hens that he would have paid otherwise. And because he now has more hens, he'll need to spend less time or money on food, or at least on hens, and accordingly can devote more of his resources to other things.

It follows that the first two laws of subjective value do apply in the case of donations. As long as money has any value at all, a larger sum of money will always be more valuable to the donor than a smaller sum; and to a donee, the larger sum will also be more valuable than the smaller sum, though not necessarily to the same extent as for the donor.

As we have seen, things are different with respect to the third law. Donations are not proportioned to their ends. It is this fact that separates them from all other types of human action. Instead, donations are brought into a reasonable proportion with all the other objectives that could also be pursued with the help of the means that will be sacrificed in the donation (law of equilibrium). Virtually all economic goods that are gratuitously committed to a transcending cause could be employed in other ways. The time committed to contemplation, study, artistic creation, and religious

worship could also be devoted to commercial activity, hiking trips, or lazy idleness. Acts of devotion therefore compete with all the mundane activities that would necessitate the same resources. God does not compete with human beings nor with their profane undertakings. But on human timetables, worshipping God does compete with lunches, labor, visits to the movie theater, and sports. Donations are therefore not removed from economic law.

Donations and the Market Economy

Very often, donations and market exchanges feed directly into each other. Donors purchase gifts and donees use money gifts to make purchases. In order to be able to make a gift, one needs some wealth; and in order to acquire wealth, one typically needs first to provide goods and services to clients. Donations therefore tend to grow along with the market economy. When real incomes and real wealth increase, market participants are able to make larger and more frequent donations.

We see here that markets and donations are *prima facie* positively related. As we go on, it will become increasingly clear that this is an organic relationship. It springs from the nature of markets and of donations, which play *complementary roles* within the human economy, nurturing each another, thriving and perishing together. Donations cannot be replaced when it comes to things that need to be done for their own sakes. Market exchanges cannot be replaced as a framework for evaluating means and ends, for bringing them into a reasonable proportion under changing conditions of time and place.

This is why it makes no sense to conceive of donations and market exchanges as alternative options for human cooperation. Neither could possibly substitute for the other and serve as the model for all economic relations. We will not dwell much on this topic, since it is obvious that infants, the destitute and frail elderly, and the severely handicapped, to name just a few cases, could not provide for themselves via market exchanges. It is a little less obvious that donations are no possible substitute for the market economy. We will leave this issue aside for the moment and return to it later.

Antagonisms between market exchanges and donations may occur here and there, but they do not spring from the nature of donations, nor from the nature of markets. They may either result from short-run conflicts pertaining to the allocation of resources (Should this or that sum of money be invested or given to the poor?); or they may result from government

interventions, which alter the relationship between market exchanges and donations and create conflicts that would not spontaneously occur.

Donations and market exchanges therefore tend to reinforce each other *at all times and places*. But which are the concrete mechanisms that come into play? In what follows, we shall see how the pricing processes of the market economy coordinate donations and for-profit activities.

Donations in a Growing Market Economy: A Baseline Scenario

In a growing economy, material goods become more and more abundant. The overall level of production increases, and the overall level of real incomes increases as well. On the side of the donees, this reduces the need for material gifts, though not for relational gifts. On the side of the donors, economic growth increases the ability to make both material and relational gifts.

Furthermore, economic growth does not only affect the *amount* of donations, but also their composition. It tends to make purely material gifts increasingly superfluous, while stimulating donations of time, and relational gifts in particular. For prospective donors, there would be ever less need, and ever fewer incentives, to spend their time on the production of material goods, while prospective donees would have fewer material needs, though an undiminished need for relational gifts.

Moreover, and most importantly, economic growth does not only enhance the *ability* of market participants to make donations, but also their *motivation* to do so. Let us see how this works.

The increase of real incomes tends to entail an increase of real savings (though not necessarily an increase of the savings *rate*). Some of these savings will be held in cash (hoarded), but another part will be invested in firms, real estate, and financial markets. Economists call this greater investment an increase in the supply of monetary capital. Its natural consequence is that the return on capital (ROC) tends to fall. Indeed, what does it mean to invest more money in a firm? It means that this firm hires more factors of production and eventually sells more products to its customers. But the increased demand for factors is likely to increase their prices, and the increased supply of products is likely to reduce their prices. The profit margin of our firm therefore tends to fall (see the full discussion in Roth-bard [1962] 1993, pp. 398–407). And the same result obtains when greater savings are available for investments in real estate and financial assets. In all cases, the increase in savings tends to bring about a diminished ROC.

This decline in the ROC means that the use of wealth *as capital* (that is,

with the intention to obtain future revenue through investments) becomes ever less rewarding. As a corollary, the *opportunity costs of donations fall*. More donations will therefore be made. But this does not mean that donations will increase in a linear or proportional manner (as could be expected if economic growth entailed a rise in incomes but no change in the ROC). Rather, growth has a disproportionate impact on donations. When real incomes increase, donations tend to increase *as a percentage of income*. And inversely, when real incomes shrink, donations tend to drop as a percentage of income.

In other words, in a free-market setting, the nonprofit sector tends to grow (and shrink) faster than the for-profit sector. Increased capital accumulation tends to diminish the ROC. This discourages for-profit uses of savings and makes more income and savings available for donations. In the case of a *shrinking* market economy, gifts and other donations shrink even more than for-profit activities. Reduced savings are likely to diminish the supply of capital. The price of capital, and with it the opportunity costs of donations, therefore increase. Fewer donations are made.

The mechanism that we see here at work is well known and has been described in other contexts. Murray Rothbard ([1962] 1993, pp. 184–85) highlighted it in a comparison between the values of exchangeable and of nonexchangeable goods:

> Suppose that a man owns a piece of land containing an historic monument, which he prizes on aesthetic grounds. Suppose also that he has an offer for sale of the property for a certain sum of money, knowing that the purchaser intends to destroy the monument and use it for other purposes. But it is evident that a greater abundance of consumers' goods already at his disposal will tend to raise the value of the (unexchangeable) aesthetic good to him as compared with the given sum of money A destitute person is far less likely to prefer the nonexchangeable to the exchangeable than one whose "standard of living" in terms of the latter is high.

Capital accumulation brings about a state of affairs in which ever more resources remain outside of the market, to be held in reserve.[5] Although this state of affairs might seem to be regrettable from a narrow economic point of view, and to call for some sort of remedy, these reserves of material things and of time actually play a fundamental role in human life. As we have seen, they are the material foundation of donations. Without any

surplus stocks held in reserve, it is impossible to make donations of any kind. Without any time withheld from commercial activity, it is impossible to cultivate friendship, tend to the sick and lonely, or pursue a scientific or artistic endeavor.

Countervailing Forces

We have just studied a baseline scenario that shows how economic growth tends to have a disproportionate impact on the *level* of donations, as well as on the *kinds* of donations that are made.

Are there any countervailing forces that may supersede this basic relationship? We have seen that the positive impact of economic growth on the level of donations may result from two factors, either separately or in combination: increased incomes and the reduction of the ROC. Let us therefore look at them more closely.

The increase of real incomes is a characteristic feature of *all* economic growth. The two are synonymous. Economic growth *means* that real incomes increase overall. Donations therefore tend to increase whenever and wherever there is economic growth. But notice that this holds true only at the aggregate level. If only a few incomes increase, while most other incomes stagnate or diminish, there might still be economic growth in the aggregate; this would tend to have a positive impact on the *level* of donations, even though in practice it would affect only a happy few.

How about the ROC? We have seen that it tends to diminish in a growing economy and that donations then tend to grow faster than for-profit activities. But this drop in the ROC is not inevitable under economic growth. The reason is that economic growth may be propelled by factors that have a countervailing impact on the ROC.

Economic growth generally results from three causes; namely, increased monetary savings, increased material and human resources, and improvements in the way the available resources are used (most notably under the impact of inventions, discoveries, entrepreneurship, and engineering). In all three cases, economic growth will tend to stimulate savings, as in our baseline scenario, and therefore entail a tendency for the ROC to fall. But only the first cause of economic growth (increased monetary savings) *reinforces* this tendency, while the other two causes exercise an opposite effect. If more resources become available (for example, due to migrations or to the discovery of minerals that can be accessed at low costs), then factor prices will tend to fall. As a consequence, firms will likely become more profitable. Their ROC will increase. Organizational or technological improvements would have the same effect. If savings increase

and more resources became available, there would be two opposite forces at work, one that would lead to a drop in the ROC and one that would entail its increase. Sometimes the former would be stronger than the latter, and sometimes it would be the other way around.

We therefore have to nuance the basic finding from our baseline scenario. We now understand that *to the extent that economic growth is driven by savings, donations tend to grow (and shrink) faster than the for-profit sector*. When larger savings entail greater capital accumulation, the opportunity costs of donations drop. For-profit uses of savings are then discouraged. A higher percentage of wealth becomes available for donations. By contrast, to the extent that economic growth is driven by an increased availability of resources, or by improvements in the way the available resources are used, there is no systematic impact on the percentage of wealth that will be allocated to donations. The latter rise and fall with wealth, but their *relative* share in wealth does not systematically increase nor decrease.

There is a further consideration that should come into play when dealing with the impact of the ROC. Above we argued that a reduction of the ROC is tantamount to a reduction of the *opportunity costs of donations*. Yet again, this is true only in the absence of countervailing forces. It is true if the drop in the ROC results from an increase in savings. It may not be true if the ROC drops for other reasons. Two cases merit our attention.

In the first one, the ROC falls because of a drop in the demand for capital. This may most notably be the case in an economic slowdown or slump, or when ill-advised policies paralyze the country. In all such cases, the drop in the ROC would reduce the opportunity costs of donations, but this would be offset, totally or in part, by the simultaneous drop in incomes. Reduced incomes are tantamount to lower material donations, and they would also entail the necessity of working longer hours, thereby increasing the opportunity costs of time donations. Hence, there would again be two opposing tendencies at work. Sometimes the drop of the ROC would overcompensate for the drop in incomes, and sometimes it would be the other way around. But, this case may not be very relevant for our present concerns. After all, we wish to understand how donations fare under the impact of economic growth, not under the impact of slowdown or paralysis. Let us therefore turn to the second case.

In the second case, the ROC falls under the impact of financial leverage. Consider the following numerical example.

An entrepreneur pursues a line of business from which he has come to expect a 10 percent annual return on his capital of $1 million. That is, he expects to make an annual net revenue of $100,000. But thanks to an

inexpensive bank loan, he is able to increase the volume of his operations tenfold. He no longer invests $1 million but $10 million. It is true that his ROC is likely to drop. After all, he will henceforth wish to sell a greater volume of products, and this can only be done at lower unit prices. He will also need to hire more factors of production, and this is likely to increase their prices and diminish his bottom line. Let us therefore assume that his ROC diminishes from 10 to 5 percent. And let us also assume that he needs to pay 3 percent annually on the $9 million in credit that he received from the banks. If his business runs as planned, then he will earn an annual net revenue of $230,000. This sum is equal to the difference between $500,000 (corresponding to a 5 percent return on capital of $10 million) and the $270,000 which he needs to service his debt (3 percent of $9 million).

Now, notice that the return on *his own capital*, his equity capital, has increased from 10 percent to 23 percent. Even though the ROC has dropped, the total amount of money that our entrepreneur can earn by staying fully invested in his business has increased and he has multiplied the return on his equity capital. From his point of view, therefore, *the opportunity costs of donations have not diminished but grown*. He is therefore likely to *reduce* his donations—maybe not the absolute amount of time and money that he donates, but the percentage of his time and money dedicated to donations.

What we see here is of utmost importance to the economics of donations. We see that financial leverage has the power to *invert* the baseline relationship between savings-driven growth and donations.

What, then, are the causes of financial leverage? We have discussed this question in some detail in another book (Hülsmann 2013, chap. 8). In what follows, we will therefore highlight only the two most important factors: the price-deflationary tendencies of economic growth and the monetary policy of central banks.

Price Deflation and Monetary Policy

As the economy grows, more and more economic goods become available. But this does not mean that there will be more units of each type of good. To be sure, *some* goods will be produced in greater quantity. But more often than not, economic growth goes hand in hand with *increased diversification*. It is not necessary to produce more haircuts and more bread because the demand for such goods is quickly saturated. If more savings become available to fund additional investment projects, these funds therefore tend to be used to produce *different* goods. These could turn out

to be *better* haircuts and better bread, but often they are completely new types of goods.

Now, money is one of those goods that will tend to be improved in quality rather than quantity. The reason is that money serves, among other things, as a store of wealth. All market participants therefore prefer to use monies that preserve their purchasing power as well as possible. Ideally, they would like to use a type of money with an *increasing* purchasing power (see Salin 1990, chap. 2, sec. 2, and chap. 6, sec. 1). The purchasing power of each money unit (PPM) most notably increases when the money stock does not increase as fast as the stock of goods it can buy. It then becomes *scarcer* in comparison to these other goods. Its market price—its PPM—tends to increase.

Suppose the economy grows at an annual rate of 3 percent. All goods are traded both against paper notes and against silver coins. The paper notes are issued by a bank. The silver coins are produced by a mining company. Furthermore, suppose that these are two distinct types of money. The notes are not used as promises to pay silver, and the coins are not used as promises to pay banknotes. Each year, the bank increases the quantity of notes in circulation by 10 percent, whereas the annual production of silver corresponds to 2 percent of the existing stock. The banknotes would therefore tend to become ever more abundant relative to other goods (silver and all nonmonetary goods), whereas silver would become ever scarcer relative to other goods. Accordingly, the market participants would have a material incentive to use silver rather than banknotes.

In a *free-market* economy, the choices of the market participants would not be impeded by government interventions. A free market in money would therefore lead to the selection of the scarcest types of money. This implies that in a *growing* free-market economy, money would tend to be produced less than all other goods. Nonmonetary goods would become increasingly abundant in comparison to money; and money would become increasingly scarce in comparison to nonmonetary goods. The PPM would increase and the general level of all money prices would fall. Each year, bananas, cars, and rentals would cost a little less money than in the previous year. In other words, *economic growth under free markets would tend to be price-deflationary growth*.6

Price deflation has two momentous consequences for gratuitous goods. The first one is that *price deflation encourages the hoarding of money*, which increases the real cash balances of all market participants. We will discuss this in more detail in chapter 6.

The second one is that *price deflation discourages financial leveraging*. This

is easy to understand in the case of households. Under price-deflationary growth, household *monetary* incomes are likely to stagnate, and they may even decrease, whereas their *real* incomes will tend to rise. But loans are money loans. They therefore have to be repaid in money, and this is typically not a good deal under price deflation. Suppose Jim obtains a $1,000 loan now and has to pay it back in two years, when the price level will be 10 percent lower than now. In two years, he will be making a payment that has a 10 percent higher purchasing power than the sum he initially received. Moreover, his own money income may have fallen, in which case the burden of paying $1,000 would be higher than it is now. The case of firms is a bit more complicated and will be discussed in chapter 9. But the general tendency is the same: price-deflation discourages financial leveraging.

From these considerations it follows that we may reassert our initial conclusions. In an unimpeded market economy, in which economic growth is driven by savings, *donations tend to grow (and shrink) faster than the for-profit sector*. In other words, when the price-deflationary tendencies of the market are *not* offset or overcompensated for by monetary policy, the use of wealth *as capital* becomes ever less rewarding. As a consequence, the opportunity costs of donations tend to diminish. More donations will therefore be made not only in absolute terms, but also as a relative share of income and wealth.

In part three, we will discuss in more detail how central bank policies affect gratuitous goods. Under inflationary monetary policies, donations may stagnate or shrink even when incomes are rising. The reason is that monetary interventions create various incentives to devote all available resources to for-profit activities at the expense of nonprofit activities, including charity. Therefore, the tendency for donations to grow (and shrink) faster than the for-profit sector *does not hold in the presence of monetary interventions designed to inflate the money supply*.

Bequests and Inheritance

So far, we have examined the qualitative relationship between economic development and the level of donations, as well as the different forms of donations. It would be tempting to follow up with a *quantitative* assessment, but we need to postpone this until we have a better grasp of all relevant causal factors. At this stage of our analysis, we shall make one exception, which concerns the quantitatively most important form of giving; namely, the bequest of wealth to one's heirs.

Although monetary gifts are often made in small installments on a pay-

as-you-go basis, large donations are usually made as lump sums at the end of a person's life. These sums are saved over a lifetime. Typically, such savings do not lie dormant in a bank account but are invested. This implies that donations motivate much of the capital accumulation on which a developed market economy must rely.

Following Boulding (1973, pp. 32–33), we can illustrate the quantitative dimension of *financial* inheritance with a back-of-the-envelope calculation based on 2019 figures for the US. At the end of that year, US GDP stood at $20.984 trillion; the aggregate net wealth of US households and nonprofits was $118.577 trillion, and the average life expectancy was about seventy-nine years. If these figures were constant, and if wealth were equally distributed across all age groups, then one-seventy-ninth of the aggregate net wealth, or $1.501 trillion, corresponding to 7.18 percent of GDP, would be bequeathed each year. In other words, 7.18 percent of aggregate revenue in any given year would result from inheritance.[7]

Now, wealth is *not* equally distributed across all age groups. The oldest households, which are especially relevant for our question, typically have higher-than-average savings. In the year 2019, the net worth of the oldest US households was some 1.31 times higher than the average. Accordingly, total inheritances would be equal to some 9.41 percent of GDP, rather than to the 7.18 percent given above.[8] In the case of Germany, the same sort of calculation based on 2020 figures implies that a value corresponding to 5.16 percent of GDP is bequeathed every year. In the case of France, this figure would be 8.15 percent of GDP, based on 2018 figures.

This rough assessment gives us an approximate idea of the enormous significance of inheritance. From a quantitative point of view, it is certainly the most important form of material gift in modern society. It therefore cannot fail to have the most profound impact on the for-profit activities in the economy. However, moving beyond Boulding, we should underline that inheritance also has a *qualitative* dimension that is at least as important as its quantitative one. This concerns especially the transmission of *capital*. Inheritance has very different economic and social consequences depending on who the heirs are, in particular how they relate to the deceased and how they relate to his capital. Let us point out in some more detail how these two factors determine the supply of capital and its productivity.

The productivity of human action crucially depends on the capital employed. The more capital is available, the more time is available to prepare final production, and the greater is therefore the abundance of final products in terms of quantity and quality. This is called the law of roundabout production.[9]

Now, death puts a natural limit to self-centered time horizons. If it were not possible to transfer capital from the deceased to living persons who are able to run the business in which the capital is currently employed, the business could not survive the death of its founder. Inheritances make some continuity possible. The current owner, who loves and knows his business, is likely to leave it to people who love and know it, too. Indeed, the possibility of leaving it to such people is one of the strongest motivations to develop a business and keep it going.

Very much the same thing can probably be said about other forms of material inheritance, including land, residential real estate, and durable consumers' goods. In each case, one may ask why the deceased did not consume all of his wealth before death. And in each case, part of the answer will be that he was saving it for his loved ones among the living. In other words, *one of the most powerful motivations for building and preserving material wealth is to become and remain able to make gifts*.[10] Few decisions to make substantial gifts are made at a moment's notice, as when we encounter a beggar at a street corner and give him change. Large gifts are planned in advance, often far in advance. Many a man has worked hard for a lifetime *in order to* be able to give substantial material gifts on his passing.

The level of wealth and capital existing at any point in time does not simply drop out of the blue sky. Nor does it simply result from the productivity of the real economy, which would then appear the ultimate cause of wealth, rendering the *distribution* of wealth through exchange and gifts a peripheral issue, unconnected to the production of wealth. It is precisely the other way around. The rules that govern the distribution of wealth inform and motivate the persons who produce wealth. The overall amount of wealth therefore depends on the legal framework and on the implied distribution mechanism.[11] It depends on the will and the ability of acting men to build up and preserve wealth and capital for other people.

Wealth, the production of wealth, and its various uses are not unconnected spheres of human life. They are part and parcel of one decision-making process.[12] The supply of capital in a market economy crucially depends on the motivation of current asset owners to bequeath their wealth to people (or causes) they love. It depends on what Schumpeter ([1942] 2003, p. 160) once called "the family motive"—the desire to work and save for spouse and children.

It follows that anything that impairs this motivation, or which prejudices the ability of the current owners to donate their assets to those who in their eyes should eventually own them, is likely to reduce the supply of capital. A free and unimpeded gift economy therefore makes for an

abundant capital supply, whereas the taxation and regulation of gifts—especially of inheritances—slows down capital accumulation. And as we have seen above, this is likely to entail a negative feedback loop. Lower capital accumulation means lower growth rates, and higher returns on capital. As a consequence, the ability and willingness to make donations is curtailed.

Virtues

So far, we have discussed the beneficial impact of economic growth on the ability and readiness of people to make donations. We have also seen that the desire to make donations is a powerful motivation for capital accumulation and capital preservation. And we have argued that donations are complementary to markets in that they provide goods that cannot be purchased, either out of poverty or because of their relational nature.

Now we need to consider an even more fundamental complementarity between donations and markets. Indeed, *the most fundamental goods on which an extended market economy is built cannot themselves be produced through for-profit activities*. We are talking here about basic attitudes and personal values, such as the will to do good and to be good; the love of truth for its own sake; the respect for and love of others for their own sake; the trust in others; the readiness to make personal sacrifices for others without expecting a return; the love of justice; and courage in the face of adversity, to name just the most important ones.

Such goods are known as virtues. They can be produced through processes commonly known as education and socialization. But they need to be produced for their own sake or for the sake of a supreme moral objective, most notably pleasing God.[13] In any case, they cannot serve as means to attain some other end, like monetary revenue or the power of the state. Indeed, if the love of truth depended on the revenue associated with being truthful or on state approval then it would not be a love of truth, but of money or of the state. This sort of truth loving might be good enough as a foundation for occasional spot exchanges of limited value, but it cannot provide the foundation for human cooperation within production processes that involve thousands of people who barely know each other and that span many years and generations. It could not create the trust needed for this level of cooperation.

Virtues involve sacrifice. The virtuous person must be ready to forego, without compensation, any advantages that are in opposition to the virtue. There are no material incentives to behave virtuously. There can be no such incentives. Virtuous behavior therefore cannot be "produced" by the

motivations and mechanisms that drive the market. Such behavior must come as a donation. It must be cherished for its own sake or for the sake of God. The sacrifice involved in virtuous behavior must be accepted and, ideally, loved. And the only way to educate others to come to this love is by example; that is, by sacrifice. This is the most noble mission of parents and other educators.

Without virtue, the market economy is condemned to be crippled. To be sure, the same thing holds true for all other human institutions and most notably for the state. This fact brings to mind the memorable words of Ernst-Wolfgang Böckenförde (1976, p. 60): "The liberal and secular state lives on premises that it cannot itself control."[14] Indeed, the modern state grew out of a culture that revolved around sacrifice. Without this foundation, the state, too, is condemned to wither away. No thriving human association is possible unless some of its members, at least some of them, are willing to make the necessary sacrifices.

In short, the foundation of human flourishing is not to be found in the powers of coercion, nor in greed or fear. The true foundation is the willingness to make sacrifices. Neither sticks nor carrots, neither pleasure nor pain, can replace them.

And the preeminent form of sacrifice is religious ceremony— the festive dedication of time and material resources to publicly honor God and give Him thanks. For this sacrifice is removed from the concerns of the ordinary business day. It *cannot* be a tit for tat. It cannot be a hidden price or a bribe. Against a background free of such ambiguities, the true character of the sacrifice appears in stark relief. Josef Pieper therefore called the ritual of public sacrifice "the primary source of man's freedom, independence and immunity within society. Suppress that last sphere of freedom, and freedom itself, and all our liberties, will in the end vanish into thin air" (Pieper [1948] 1998, pp. 17–18).

We now see more clearly than before the practical difference between donations and grants. The development of market exchanges, and the building of long and intricate supply chains, requires the availability of goods that need to be appreciated for their own sake, and not as means for the attainment of other ends. At some point, there must be people who provide such goods for their own sake. They must stand ready to provide them even if they do not thereby obtain any personal benefit. At a most fundamental level, the development of the market economy requires devotion and sacrifice. Grants will not do.[15]

This salient difference between donations and grants also shows up in the fact that there is no market for donations. To be more precise, as a

matter of logical necessity, there *cannot* be a market for donations. A "donation" that could be obtained via exchange would in fact not be a donation at all, but a price or a return on investment. And for the same reason, there cannot be a market for acts of devotion or for the virtues that result from them.

Things are different in regard to grants. Kenneth Boulding has pointed out that competitive grant making is possible, resembling competition in for-profit activities:

> There is something like a "market" in grants. Where there are a large number of grantors facing a large number of potential recipients, at least an analog of the competitive market in the exchange sector begins to appear. Something like this market exists, at least in the more developed countries, in the field of research. Research is widely recognized as a highly suitable activity for grant support. Scientific knowledge is a public good in that once the discovery has been made, it is available to anyone who can understand it. That does not apply, of course, to trade secrets, classified research, and patented processes. (Boulding 1973, p. 24)

Again, this holds true for grants, but not for donations. If a donor were to "compete" with other donors, the objective of his action would change and his gifts could no longer be considered pure donations. A new objective comes into play that vitiates the gratuitous nature of his actions. He now wishes—at least *also* wishes—to obtain an advantage over other competitors. He wishes to gain the honor of funding this or that research project (and thus not only the honor but a reputation that will prove useful to attract further funding). That is, he does not seek to do good without expecting anything in return. He may still wish to do good, but he also expects a benefit for himself. The products of scientific research might be "public" in the sense that nobody owns them exclusively. But the product for those who fund scientific research may very well include monetary revenue for themselves. This seems to be the case, most notably, as Boulding rightly observed, with respect to the large foundations which are involved in such funding activities.

Donations and Economic Organization

There is today an entire industry of charitable organizations, or philanthropic organizations, as they are sometimes called. By employee

head count, these entities surpass even the largest for-profit companies.

Germany is a case in point. The country features six large private welfare organizations: Caritas (Catholic Church), Diakonie (Lutheran Church), the German Red Cross, Arbeiterwohlfahrt (labor unions), Paritätischer Gesamtverband (an association of corporations and labor unions), and Zentralwohlfahrtsstelle (Jewish run). All of these organizations are co-funded by private donations and massive subsidies from the federal, regional, and local governments. The governments typically commission these organizations to implement various public welfare programs. The two largest private welfare organizations, of approximately equal size, are Caritas and Diakonie. Together they have employed approximately 1.2 million persons, along with hundreds of thousands of volunteers, in the last twenty years. To put this figure in perspective, consider the corresponding figures for the three largest German industrial firms (in terms of employees). In 2021, Siemens employed roughly 303,000 people worldwide and 86,000 in Germany. In the same year, the Mercedes-Benz Group employed about 172,000 people worldwide, and the largest German corporation, Volkswagen, employed approximately 668,000 worldwide, 294,000 of them in Germany.

The large philanthropic organizations of our time are typically managed with the same tools as any for-profit company. They use double-entry bookkeeping and balance sheets, and employ professionals to manage their operations. They even have sales departments, though the latter typically have different names, such as "donor relations" or "development." Philanthropic organizations are also somewhat coy about using the words "profit" and "loss" in their income statements.[16]

This warrants two comments, one on the classification of organizations and the other on the fundamental role of monetary calculation.

The Classification of Organizations

Many scholars today seek to establish sharp lines distinguishing for-profit firms from other institutions, such as nonprofit organizations and philanthropic enterprises.[17] But no such lines exist, and it is vain to look for them.[18] In particular, such lines cannot be drawn based on the legal or administrative setup of an organization. An investment trust listed on the London Stock Exchange can be run like a charity; and some trusts seem to be run that way. A nonprofit organization can be run for the personal monetary profit of its management and founders, benefitting from the fiscal and regulatory privileges that come with the nonprofit status; and some nonprofits seem to be run that way. A family can be run for profit like

a firm, benefitting from the fiscal and regulatory status of private households; and some families seem to be run that way. We say that they "seem to be run that way" because what truly drives CEOs or mothers is hidden in their hearts, and it is liable to change.[19]

The truth of the matter seems to be that there is a great variety of human motivations; that the motivations of one person change from time to time; and that man, if left free, would devise the organizational forms most suitable to his purposes but that he cannot always choose his preferred option because of various legal constraints, in which case he has to work, as best as he can, with the options that the state imposes on him.[20]

Economic Calculation

The more relevant dividing line can be found elsewhere. It divides human action that can rely on monetary calculation from human action that cannot. In a monetary economy, *all* individuals and *all* organizations, whatever their legal or administrative status, and whatever their motivations might be, can rely on monetary calculations. They can add up costs and revenues. They can compare costs to revenue. They can compare the profitability of past activities, and they can estimate the profitability of future courses of action.

This holds true in the case of donations no less than in the case of for-profit activities in commerce and industrial production. The market entrepreneur seeking monetary profits relies on an investment calculus when he compares expected costs to expected revenues for each venture and when he compares the expected returns of different ventures. Similarly, private households compare the prices of different goods. In a monetary economy, all types of expenditures— from food, housing, and transport to vacations and gifts—can be compared to each other in money terms. Households may rely on such comparisons for all choices related to consumption, saving, and investment. A household may choose to compare its costs (such as expenditures on consumers' goods, rent, and insurance) to the revenue obtained on the market or through government handouts. It may even establish an income statement and a balance sheet. It is true that few households seek to maximize the monetary return on their household spending, and fortunately so for the mental health of its members. But this does not alter the fact that they can rely on the price system to inform their choices and pursue their plans.

In a monetary economy, therefore, the tool of economic calculation can be used not only in the for-profit sector, but also in households, and in fact in all organizations, whatever their objectives might be. It is wrong to

assign the applicability of this tool to the for-profit sector only. The present author may be excused for emphasizing this error since he himself has occasionally lapsed into it. Even if we define nonprofits as organizations that do not sell their products, but provide them gratuitously to other people, it does not follow that such organizations have no revenue that could be compared to cost. Indeed, where does their money come from? A nonprofit enterprise obviously *does* have revenue. It therefore does have customers. To be sure, its customers are not the people to whom it provides unpaid services, but the people from whom it gets funding.

Hence, we uphold our contention that in a monetary economy *all* market participants, whatever their legal or administrative status, and whatever their motivations might be, can rely on monetary calculation. In other words, whereas *all* human choices rely on subjective values, these choices *may also* rely on economic calculation, wherever monetary exchange is present. Choices that rely on economic calculation *may* aim at maximizing monetary revenue, or not. Wherever markets are absent, only subjective values remain, and they become the sole guide of human action.

This sheds some light on the large private welfare organizations of our day. They operate in a monetary economy. They are able to base their decision-making on economic calculation. This is why they can reach their considerable size and operate with a modicum of efficiency. But it also explains, as we have pointed out above, why the legal form of an organization is of quite secondary importance. It explains why so many organizations that are ostensibly nonprofits behave very much like for-profit organizations or pursue the distinct social or political agenda of their founders and of the people who fund them and run them. To wit, a few years ago, George McCully, the founder of the Massachusetts Catalogue for Philanthropy, found that "very few" of the organizations listed in the IRS database of nonprofit institutions in Massachusetts had "anything to do with 'philanthropy.'" He explains:

> In Massachusetts the *Catalogue for Philanthropy* . . . found that 75 percent of tax-exempt entities are primarily self-serving (supported by, and providing benefits for, their own members), only about 10 percent are indisputably "private initiatives, for public good, focusing on quality of life, and engaged in public fund-raising (the philanthropic marketplace)," and the remaining 15 percent are "paraphilanthropic"—between the two. (McCully 2012, p. 185)

Nonprofit organizations play an important role both in relation to the gift economy and to the market economy. However, in the present chapter we cannot conclusively assess this role. We first need to consider the influence of government interventionism and therefore postpone our final remarks on this topic until chapter 11.

A Pure Gift Economy

If charitable organizations can reach the dimension of large-scale industrial enterprises, the question of whether it would be possible to gear *all* production processes toward gift giving comes to mind. In such a scenario, no one would sell his products anymore but give them away. And everyone would in turn benefit from the gifts made by other people. Could the entire economy be a pure gift economy of this sort?[21] As we know from analyses of communism, this could be attempted, but it would come at a heavy price.[22]

A pure gift economy would by definition be an economy without exchange, and thus without market prices. Yet market prices provide orientation marks for all market participants. They greatly facilitate the decisions of families, charities, and firms to produce one type of good rather than another; and *not* to use certain goods because they cost too much to buy. In a pure gift economy, this orientation would no longer exist. It would have to be replaced by a great sense of judgement and great discipline on the part of all members of society. Clearly, such qualities are exceedingly rare and, what is more, they would not be rewarded in a pure gift economy and would therefore not be cultivated in such a setting. It is out of the question to organize an extended division of labor on the little judgement and on the little discipline that could be mounted by just a few virtuous people.

Moreover, even if these people were not few but many, a pure gift economy would still suffer from a formidable impediment. As Mises ([1922] 1981; [1949] 1998) showed, without exchange and market prices it would be impossible to organize the division of labor within lengthy and complex roundabout-production processes. Good judgment might be sufficient to devise an overall plan for cooperation between a few shoemakers and butchers without the interposition of prices and exchange, but good judgment is at a complete loss to evaluate the relative (and often changing) importance of computer programs, drilling equipment, operations research, and other goods that are removed from our immediate experience.

A static economy serving a few people with very short supply chains

might be organized as a gift economy if the producers are inspired by brotherly love and mutual trust. As soon as any one of these conditions is absent; as soon as love and trust are lacking; as soon the economy involves thousands, millions, and billions of people; as soon as supply chains grow long and complex; as soon as technological and other conditions change fast and frequently, a pure gift economy is out of the question. The productivity of labor in such an economy would be exceedingly small as compared to what we know it to be in a developed market economy. Both for-profit production and donations would plummet.

Hence, we see again the complementarity of markets and donations. Monetary exchange makes a unique and irreplaceable contribution to the division of labor and to social life more generally. Money prices, not any specific motivations such as the profit motive, provide a framework that allows human cooperation to be extended among millions and billions of persons, over many years and generations, and that allows man to cope with rapid technological change. These benefits are gratuitous side effects of a monetary economy. We will deal with this important subject in more detail in the next chapter.

The Sharing Economy

The above considerations of the problems of a pure gift economy can be usefully extended to discuss the case of the so-called sharing economy, which in the second decade of the twenty-first century has attracted a lot of attention.[23]

The internet-based sharing economy revolves around firms such as Airbnb and Uber. In their public relations, Airbnb and Uber stress the benefits that the owners of private apartments and private vehicles may derive from putting them to work through the company. Thanks to Airbnb and Uber, such goods may not only become a source of revenue, but also be shared gratuitously. In any case, the new technology allows a resource to be made available to a larger set of people than just the owners and their rather narrow circle of friends and relatives.

Sharing is *a* form of social integration. In a general sense, it is *the* form of social integration. The very meaning of sharing is to have something in common with other persons and thus to be bonded to them. All communities are based on shared experiences, shared problems, shared convictions, and shared aspirations. It is therefore natural to suppose that "the sharing economy" might provide valuable lessons for the social role of gratuitous goods. Some analysts have heralded the sharing economy as the

dawn of a new civilization involving the "end of ownership" (Nanos 2013).

However, sharing is not new. Neither are the practices of the sharing economy fundamentally new. The expression "sharing economy" is very much a buzzword that was invented by interested parties for marketing purposes and which then came to lead an existence of its own (Eckhardt and Bardhi 2015; McCann 2015).

An increase in sharing is not tantamount to increased social integration. Increased sharing always goes hand in hand with advantages for some people and disadvantages for others. It *can be a symptom of social disintegration*, and it *can even be the cause of social disintegration*. Consider property held in joint ownership, as is often the case with goods received as an inheritance. The heirs who share an estate do not necessarily grow closer. As many families know, such situations might entail exactly the opposite. The heirs are likely to disagree on the best use of the property and to quarrel about *usus*, *fructus*, and *abusus*. In such cases, sharing is the cause of strife, rather than of friendship and cooperation.

It is therefore necessary to analyze more carefully the nature, forms, causes, and consequences of sharing. In what follows, we shall outline the main considerations that come into play.

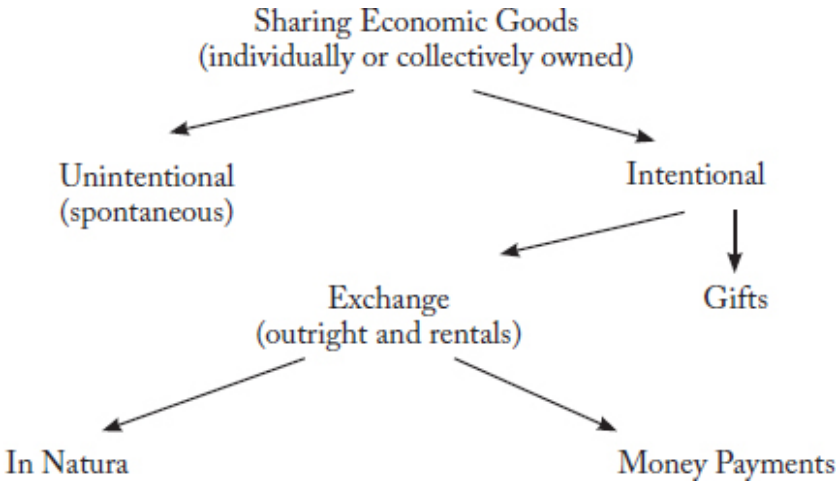
Nature and Forms of Sharing

Sharing means to have something in common with other persons. That what is shared is necessarily a good; that is, something that stands in a positive causal relation to human welfare. One would not speak of "sharing" an illness or a death threat. But one can share love, faith, hope, language, thoughts, a culture, loot, or an apartment. The sharing *economy* by its very nature revolves around *economic* goods.

As we have seen, economic goods are scarce, are known, and can be controlled. The latter aspect is particularly relevant for our question. Indeed, an economic good is always controlled by someone. There is always an owner. The ownership may be legitimized according to various legal standards or it may not be, but there is always a person or a group of persons who controls the access to and use of any given economic good.

Economic goods may be shared intentionally or unintentionally (spontaneously). *Intentional sharing* takes one of the following three forms. (1) Ownership itself may be shared (collective ownership). (2) The owners of a resource may allow other people to use it gratuitously. (3) The owners of a resource may allow others to use it in return for compensation.

Figure 5: Sharing Economic Goods



But economic goods may also be shared *unintentionally,* or spontaneously. This form most notably concerns fixed capital goods. Suppose Mr. Smith, a textile manufacturer, owns an industrial sewing machine. Smith is free to use or not to use the machine. But clearly the only way for him to use it is in mass production of textiles. This is of course why Smith bought (or built) the machine. He wants to produce trousers, skirts, suits, and costumes in great quantities. However, irrespective of how much money Smith might earn, his machine itself essentially serves the needs of other people. He is the owner, but the only way to use his property is by sharing its products with other people.

Mises was the first economist to point out this particularity of fixed capital goods. He concluded his analysis as follows:

> In the society which divides labour no one is exclusive owner of the means of production, either of the material things or of the personal element, capacity to work. All means of production render services to everyone who buys or sells on the market. Hence if we are disinclined here to speak of ownership as shared between consumers and owners of the means of production, we should have to regard consumers as the true owners in the natural sense and describe those who are considered as the owners in the legal sense as administrators of other people's property. (Mises [1922] 1981, p. 31)

In the same vein, George Reisman (1996, pp. 300–301) pointed out that capitalists, despite controlling next to all of the tools needed for

production, earn a mere 10 percent or so of aggregate net income. The other ninety percent is earned by labor and bureaucrats. Martin Rhonheimer (2021) restated these thoughts in even more general terms. Private property has an inherent social orientation. It does not need to be limited to make way for the needs of others. It is the very means by which the needs of others are catered to.

Common-Pool Resource Ownership Is Private

The collective ownership of common-pool resources is supposed to be categorically different from private-property ownership. Private-property owners may join forces to create partnerships, joint-stock corporations, and condominiums. But in such cases, the argument goes, the property that is held in common is still private property. It can be withheld from others. By contrast, certain resources *cannot* be owned because their physical characteristics do not allow the exclusion of others. They therefore have a special collective or public nature. Such common-pool resources include municipal land, lakes, seas, waterways, and atmospheric air.

This conception is flawed on two counts. (1) Common-pool resources usually *are* privately owned, and they can be preserved and developed only if they are privately held. (2) Whether it is possible to privatize *parts* of a common-pool resource does not depend on the physical characteristics of that resource but on the economic context. Let us explain these points in a little bit more detail.

As a matter of fact, common-pool resources are usually privately owned (often by the state). Very often, this ownership does not come in the usual *legal* form of property titles. Instead, it comes in the *economic* form of private use and private disposition. Only certain people may use the good. Some are admitted to the restrictive circle of beneficiaries. Others are excluded.[24]

The reason for this state of affairs is straightforward. If access to a common-pool resource were not restricted, then the good would be quickly depleted. Few people have given more thought to the nature of common-pool resources and their efficient management than the Nobel laureate Elinor Ostrom (1990, 2010). Ostrom emphasized the need to clearly define both the common-pool resource and the entitled parties. She also stressed the crucial importance of effective exclusion mechanisms against unentitled parties (see Ostrom 1990, chap. 3).

In short, common-pool resources either are privately owned or do not last. But why does this private ownership concern only the good as a whole and not also its parts? Here two economic considerations come into play.

The first one concerns the value of using the common-pool resource as a whole rather than using parts of it. The second one concerns the costs of dividing it into suitable parts.

A resource tends to remain in shared ownership whenever the *cost of dividing* the resource is too high relative to the expected benefit. In such cases, holding the resource as a whole is the only way to own it efficiently. The reason why a lake is not usually parceled into tranches is that *with current technology* it would be exceedingly expensive to demarcate borders and monitor trespassing on aquatic property.

But conditions may change. Technology will change. Although subdividing a lake into privately owned tracts might be nearly impossible today, and exceedingly expensive, anyway, it may very well become feasible at a reasonable cost tomorrow. In other words, there is no such thing as a common-pool resource *per se*. There are only economic goods that *under current conditions* cannot be efficiently divided and must therefore be owned in their entirety.

Moreover, notice that these considerations only pertain to common-*pool* resources. A pool is a stock of *homogeneous* economic goods. The different parts of the stock can be separated without affecting each unit's serviceableness. Therefore, they can also be owned separately. But there are also goods that are better owned as a whole because their parts are complementary. These parts lose their serviceableness if they are separated. It would be inadvisable, for example, to divide a lake used for fishing, if the good health of the fish requires them to be able to roam through the entire lake.

Sharing under the Impact of Capital Accumulation and Capital Consumption

The foregoing considerations can be extended by more systematically studying the impact of capital accumulation—and of capital consumption—on the sharing of economic goods. Earlier we highlighted the fact that increased capital accumulation tends to reduce the return on capital investments and thus the opportunity costs of donations, which implies that sharing in the form of gift giving is likely to be stimulated.

Under capital accumulation, the population becomes wealthier (increasing real incomes), whereas the incentives to invest diminish (declining return on capital). Therefore, alternative uses of wealth become more important, including various forms of gratuitous wealth sharing. People will tend to increase their sponsorship of sports, sciences, and the arts, as well as their support of charitable institutions.

At the same time, the process of capital accumulation is likely to have a

negative impact on the extent of the commons. As more savings (and potentially more capital) become available, and as the return on capital tends to shrink, it becomes worthwhile to finance projects that demand comparatively high investments at comparatively low returns. This is likely to influence the cost-benefit analysis of dividing common-pool resources.

For similar reasons, the process of capital accumulation is likely to have a negative impact on commercial rentals. Many durable goods are rented rather than purchased outright. This is true of consumers' goods such as vehicles, apartments, houses, and gardening equipment, and also of capital goods such as tractors, drilling equipment, and scaffolds. Individuals and firms rent these goods due to the limitations of their budget and the opportunity cost of an outright investment. The owners of durable goods rent them out because this provides income. Under capital accumulation, the budget constraints of the renters are relieved, the return on capital diminishes, and the necessity of earning extra income declines. Therefore, outright purchases will tend to grow relative to rentals.

The bottom line is that in a free-market setting, capital accumulation tends to encourage the different forms of *gratuitous* wealth sharing, which, as we have seen, is likely to reinforce social integration; while reducing the more conflict-laden forms of sharing, such as common-pool resources and rentals.

Exactly the inverse tendencies result from a process of capital *consumption*. As savings diminish, capital becomes scarcer and the return on capital tends to increase. At the same time, labor productivity diminishes, with a concomitant impact on output and real revenues. Gratuitous wealth sharing is therefore likely to diminish, whereas rentals and common-pool resources will tend to become more prominent. Social relations as a whole become more conflictual.

Technological Progress and Sharing

Let us now examine how sharing is affected by technological progress. We should stress from the outset that there can be no technological progress without capital. Capital is the foundation of technological development. It is always needed to finance research and development and to finance the application of R and D in industrial production and elsewhere. However, even if the capital endowment of an economy remains constant, technology can improve. Such progress makes it possible to earn higher profits with a given capital. In other words, the return on capital tends to increase with technological advancement. At the same time, technological improvements tend to increase output and thus aggregate real

incomes.

The effects of technological development are likely to have a mixed effect on common-pool resources. The increasing return on capital means increased opportunity costs for investments, including those designed to divide common-pool resources into separate parts. Hence, unless the technological breakthrough in question specifically concerns such investments, it is likely to slow down the division of the commons.

Technological progress also has a mixed impact on rental services. The increased return on capital invested in rentals makes it more profitable for investors to specialize in renting out various durable goods, and it also increases the opportunity costs of owning such goods without using them regularly. Now, a breakthrough might specifically benefit rental services, as in the case of the property management software created by Airbnb and similar firms. But it might also benefit outright purchases of durable goods, if it substantially reduces the prices paid by the final users. Thus unless technological advancement specifically facilitates outright purchases of goods that would otherwise be rented, it is likely to benefit the rental market.

As far as gifts are concerned, the impact of technological progress is not uniform either. On the one hand, the wealth effect is likely to increase such forms of sharing. On the other hand, the increased return on capital signifies higher opportunity costs for noncapital uses of wealth. Therefore, unless the technological breakthrough in question specifically facilitates the gratuitous sharing of wealth, it is not likely to be particularly beneficial in this regard.

We conclude, then, that technological progress *per se* is not conducive to sharing. This fact needs to be stressed in regard to the often-exaggerated claims made on behalf of the internet-based "sharing economy." Although it is true that the services provided by online firms facilitate the renting of durable goods, this is not *per se* likely to increase social cohesion (Slee 2015) and donations of time and money.

1We are fully aware that the last two sentences may sound like gibberish to the ears of economists. Indeed, without the distinction between efficient and final causes (see above, pp. 66, 72–75), it makes no sense to assert that donations do not serve the donor and are not useful to him. But in the light of this distinction, these words convey the meaning they have for most noneconomists. For a discussion of the verbs "to use" and "to love" see Wojtla ([1960] 1981, pp. 25–36).

2By contrast, the category of consumption seems to fit all those cases of leisure (in

the economic sense) which cannot be properly counted as leisure in the philosophical sense; that is, which cannot be counted as donations. Time spent playing sports, relaxing at bars, or watching television shows are consumptive activities. The time needed to enjoy food, drink, and other consumers' goods can itself be interpreted as a consumers' good. See Fegley and Israel (2020).

3There are also context-dependent laws of subjective value. Most notably, in the context of a market economy, the value of any good depends on whether that good can be traded and at what price. Accordingly, today's standard microeconomic theory distinguishes between the substitution effects and the income effects of a price variation (Böhm and Haller 2018; Helm 2018). The existence of income effects has been contested by Salin (1996). On the same topic, see also the debate between Salerno (2018, 2019a) and Israel (2018, 2020, 2021).

4For a Mengerian analysis of the subjective marginal value of gifts, see Gbedolo (2015, pp. 156–62).

5This is related to but not quite the same thing as the "reserve fund" discussed by Mises ([1949] 1998, chap. 36, sec. 2). The latter is the excess income or excess wealth that, in the eyes of interventionists, can be taxed or expropriated without adverse consequences for the economy as a whole.

6Notice that all schools of economic thought acknowledge the existence of this tendency. The contentious issue is whether price deflation is desirable. Classical and Austrian economists typically think it is (see Hülsmann 2008a, chap. 4; 2013, chaps. 2 and 4; Salerno 2010; Bagus 2015). By contrast, the champions of monetary interventionism typically argue that an unhampered, price-deflationary economy would be suboptimal from an aggregate point of view. To reach its full growth potential, they hold, an economy needs to be stimulated with expansionary monetary policy (Keynesian variant) or with monetary interventions that stabilize the PPM (monetarist variant). Keynesians and monetarists therefore recommend that the government force all market participants to use fiat money, which should be produced by central banks or other monetary authorities. Fiat money comes in the form of notes and tokens and accounting money, all of which can be produced without any significant cost. The authorities can therefore easily offset, or overcompensate for, the price-deflationary tendencies of the market. All that is required is fiat money.

7These figures are taken from the Federal Reserve's Financial Accounts of the United States (second quarter, 2020) and the Survey of Consumer Finances (2019) data.

8The median net worth of US households whose heads of household were seventy-five and older was $254,800, while the mean net worth was $977,600. In the same year, the median for all "families with holdings" was $121,700 and the mean was $748,800. From an aggregate point of view, the mean, or average, figures are more relevant. The net worth of the average seventy-five-plus US

household was 1.31 times as large as the net worth of the average US household.

9 We will discuss this law in more detail on pp. 211ff.

10 Empirical studies of the main motivations for saving usually distinguish factors such as acquisition and maintenance of real estate and other important assets; preparation for emergencies and retirement; and bequests. When asked about their "principal" motivation to save, households name bequests in about 10–15 percent of all cases (see, for example, Deutsche Bundesbank 2019; Le cercle de l'épargne 2022). However, this does not mean that 10–15 percent of all wealth is earmarked for bequests. If this motivation dominates among the richest households, then the real figure is probably much higher. Businesses are indeed the richest households' characteristic form of wealth (see, for example, Campbell 2006; Dao 2020), and as we pointed out, bequests of businesses invariably involve the issue of finding the right successor.

11 See Mises ([1922] 1981; [1949] 1998).

12 See Rothbard ([1962] 1993, pp. 183–200) for a detailed discussion.

13 All goods, including moral virtues are ordered toward God. Acting virtuously therefore cannot be a meaningful ultimate end (see Aquinas [1259–65] 2009, bk. 3, 34). With Saint Augustine (1993) we might say that all goods have to be loved in the right way; namely, more or less than other goods. The concept of the right ordering of love is developed in his *De civitate Dei*, bk. 14, especially sections 7ff.

14 "Der freiheitliche, säkularisierte Staat lebt von Voraussetzungen, die er selbst nicht garantieren kann." The very idea of a secular state is a religious idea with Christian roots. See Taylor (2007) and Rhonheimer (2014). For an original interpretation of the nature of Christian sacrifice, see Girard ([1982] 1986, 2004, 2005).

15 To be sure, grants and other forms of reciprocity do have various beneficial side effects in terms of establishing personal networks and trust and signaling a commitment to shared values and norms. This point has been duly emphasized in the literature on reciprocity (see, for example, Zamagni 2010; Gill and Thomas 2022).

16 For a discussion of governance and control issues in nonprofit organizations, see Doncaster and Hughes (1996).

17 See, for example, Boettke and Prychitko (2004, esp. pp. 21–26).

18 Pascal Salin (2020, pp. 83–84, 120) contends that the distinction between firms and households is an artificial one, introduced by the logic of taxation.

19 Human motivations are strongly influenced by the economic and political context. An important case in point is monetary interventionism. The artificial expansion of money and credit is likely to reinforce the quest for material gain at the expense of other human objectives (see Hülsmann 2008, 2013, 2016). This tendency manifests itself, for example, in the tendency toward financialization,

that is, the adoption of the characteristic strategies of financial firms (leveraged investments and a preference for liquid assets) by non-financial firms and by households. We will discuss this issue in more detail in part three.

20 The primacy of intentionality over legal form has been neglected in the literature on the "third sector" (the nonprofit sector or civil society, the other sectors being "the market" and the state). This holds true both for the pioneering work of Richard Cornuelle (1965) and for present-day authors such as Luigi Bruni and Stefano Zamagni ([2004] 2007). For a critique of the "philanthropy myth" see Zunz (2014).

21 The question is a very old one. In the Middle Ages, it arose in the context of the creation of mendicant orders—in particular of the Franciscan order. Saint Francis and his disciples, such as Saint Bonaventure and Bertrand de la Tour, sought to imitate Christ by living a life without private property. They claimed this was possible with the "simple factual use" of economic goods (*simplex usus facti*). See Frank (2008); Nold (2003).

22 See in particular Mises ([1922] 1981); Rothbard (1970); Hoppe (1989).

23 This section is adapted from Hülsmann (2018).

24 This holds true even for primitive societies. See Bassi (2021) and the sources referenced there.

6

Beneficial Side Effects of Human Action

In market exchange, there is no *intention* to gratuitously provide economic goods to other people. The intention is to provide and receive payments. Exchanges are based on contracts that regulate the obligations of buyers and sellers. Mutual obligation is not a mere by-product but the very purpose of a contract. We may therefore say that, *by definition*, the parties to an exchange do not intend to provide any economic benefits gratuitously.

Now, as we have seen, an exchange may be mixed with a gift. Smith might buy a bunch of flowers from a poor lady who does not wish to beg for money but offers to sell the flowers she picked in her garden. Or Smith might hire a nephew at a very generous wage. In both cases the observed exchange would include an exchange component mixed with a gift component.

Moreover, even though the partners to an exchange do not *intend* to provide any economic goods gratuitously, such provision may occur *without* being intended, or even contrary to the intentions of the market participants.

If an apple farmer decides to sell his product in town *A* rather than in town *B*, then this will attract more customers to *A* than *B*, so that *other* producers who sell in *A* will also have more customers. This consequence would result from his choice irrespective of (a) whether he knows it or not, (b) whether he takes it into consideration or not, and (c) whether he likes it or not. An experienced apple farmer is of course aware of these ramifications of his decisions. He is likely to take them into consideration and to have his own opinion on their desirability. Yet they would exist either way. Our apple farmer might very well hate the idea that the farmers who sell chicken in town *A* would benefit from his own business. But if he decides to sell in this market for any reason—for reasons that he *intends*—

then the chicken farmers will benefit as well.

The example shows that unintended effects are not necessarily unintended in the sense that the agent ignores them or does not take them into consideration. Rather, he considers them to be *side* effects—sometimes also called spontaneous effects—in distinct contrast to those effects that are the *central* or *deliberate* objectives of his actions. Side effects may be desired (and in this respect intended in a larger sense) without being deliberately pursued.[1]

In the present chapter, we will familiarize ourselves with the pervasive presence of beneficial side effects of human action within and outside of the context of market exchange.[2] We will start off by discussing pure side-effect goods, which can *only* be obtained as an unintended consequence of human action, as well as economic goods that spontaneously result from leisure activities. This will be followed by a more detailed study of the numerous side-effect goods that spring from ordinary market activities. We shall see that the market economy is truly infused with them. It produces a panoply of economic goods which are not paid for by their beneficiaries— though these gratuitous benefits are not always intended, often ignored, and sometimes not even desired. The chapter concludes with some reflections on gratuitous evil resulting spontaneously from market activities.

From the outset, we should emphasize that like all other goods, side-effect goods have a subjective dimension. What is beneficial for one person is not necessarily beneficial for another person (and may even be harmful). Although some pedestrians may enjoy the performance of a street singer or the sight of a venerable historical building, others may find them to be a nuisance. The same pedestrian may enjoy the performance now and dislike it later, or the other way round. Moreover, since side-effect goods are by definition not exchanged on the market, there is no way to measure their monetary value.[3] On the other hand, as we shall argue in chapter 8, the very impossibility of translating the value of side-effect goods into monetary terms protects them from being incorporated into the calculus of *homo oeconomicus*.

Pure Side-Effect Goods

Let us start with immaterial goods of great importance which do result from human activity but can only be obtained as gratuitous side effects.[4] It is impossible to pursue them directly and deliberately. Important examples of such pure side-effect goods are happiness and friendship.[5] Both are the result of a virtuous life of "doing the right thing" even if it does not pay and

even if it entails material disadvantages. Its driving force is the love of virtue. It leads us to do the right thing. It tends to make us happy and to bring us the friendship of other people who share this love. But we cannot lead a virtuous life *in order to* become happy or as a means to make friends.[6]

The virtue of truthfulness may serve as an example. If I always speak truthfully, I may eventually earn the friendship of quite a few people who love truthfulness as I do. And I may speak truthfully knowing full well that I might for this reason be blessed with such friends. But the fact remains that this sort of friendship will always be a *spontaneous* rather than a deliberate consequence. For if I spoke truthfully *in order to* make friends, my truthfulness would be a means rather than an end in itself. It would cease to be a virtue, and it could therefore not earn me the friendship of people who appreciate the virtue of truthfulness. Similarly, by habitually speaking truthfully, I will tend to be happy because speaking truthfully is the right thing to do. But if I spoke the truth *in order to* be happy, I would reduce my truthfulness to a means, and happiness would not result.

In chapter 4, we saw that friendship is a typical consequence of genuine gifts. We then underscored that genuine gifts do not intend such consequences. While gifts are intended as expressions of friendship, friendship is an unintended effect of gifts. If Mary smiled at Sally *in order to* induce in her a feeling of thankfulness, then Mary's smile would not have been gratuitous but calculated to oblige Sally. In this case, Sally would be thankful, but she would likely not become Mary's friend. Thankfulness and friendship are not purely subjective or emotional outcomes. Rather, they are rooted in a rational response to a matter of fact. If Sally is the beneficiary of Mary's smile—if she truly does benefit from it, rather than just dreaming or imagining it—then her thankfulness is at heart an acknowledgment of a matter of fact. But she would not react the same way to (what she perceives as) a gratuitous smile and to (what she perceives as) a calculated smile.

The idea that happiness cannot be deliberately "produced" but obtains only as a side effect of human action is a staple of philosophical thought (see, for example, Ferry 2016). It is also vindicated by psychological research (see, for example, Frankl [1979] 2005, p. 100–2; Haidt 2006).

Viktor Frankl argued that happiness is the consequence of leading a meaningful life. Man's deepest desire is neither power nor pleasure but meaning. Those who succeed in giving meaning to their life become happy. But happiness cannot be achieved through deliberate action. It needs to be obtained as a side effect. The direct pursuit of happiness is the cardinal mistake of neurotics. They seek to produce what cannot be deliberately

made or purchased.

Frankl summarized the key to a meaningful life in light of his personal experience as a concentration camp survivor:

> What was really needed was a fundamental change in our attitude toward life. We had to learn ourselves and, furthermore, we had to teach the despairing men, that it did not really matter what we expected from life, *but rather what life expected from us*. We needed to stop asking about the meaning of life, and instead to think of ourselves as those who were being questioned by life—daily and hourly. Our answer must consist, not in talk and meditation, but in right action and in right conduct. Life ultimately means taking the responsibility to find the right answer to its problems and to fulfill the tasks which it constantly sets for each individual. (Frankl [1977] 1992, p. 67; [1977] 2016, pp. 117–18)

Material Benefits of Leisure

In chapter 5, we emphasized that market economies depend and thrive on virtues. They require a critical mass of market participants who cherish the most fundamental goods on which human cooperation depends—such as the will to do good and to be good, the love of truth, respect and for love of others, and the love of justice—and their active cultivation of these goods for their own sake. Although the material fruits of the market process depend on these dispositions, nobody behaves virtuously *in order to* make these material benefits possible. Nobody *could* do this, by definition.

Knowledge and love of the virtues requires leisure. It requires an abundance of time for activities that do not serve any practical purpose but which are carried on for their own sake. Hence, we might say with Josef Pieper that leisure is the cause of various material benefits, even though—or rather because—these benefits are *not* the intended outcomes of the leisurely contemplation of the true, the good, the just, and the beautiful.

> There are certain things which one cannot do "in order to . . . " or "so that." One either does not do them at all or one does them because they are meaningful in themselves. Certainly the doctors are correct in saying that lack of leisure makes one ill. But just as certainly is it impossible to be at leisure for the sake of health. Such an inversion of the order of meaning is not merely inappropriate, it simply cannot be made to work.

> Leisure cannot be realized so long as one understands it to be a means, even as a means for "rescuing the culture of Christian Europe." The celebration of the ritual of God's praises cannot be realized unless it takes place for its own sake. But this—the most noble form of affirming the world as a whole—is the deepest source of leisure. (Pieper [1948] 1995, p. 88; see also pp. 44, 57–58.)

Leisure does not entail unintended material benefits only when it deliberately cultivates the virtues. Any genuine artistic, scientific, and spiritual activity is likely to bring such benefits about. Extreme cases, such as the lives of saints and the lives of creative geniuses, make this abundantly clear. The creative genius strives to live a pure life of leisure activity. He consecrates virtually all of his time to the perfection of one good, at the expense of all other dimensions of his being and of all other goods. He is an athlete of devotion and prayer, a great artist, a groundbreaking scientist, a pioneering engineer, an outstanding sportsman. He is wholeheartedly devoted to his cause. He is driven in an obsessive-compulsive way. He is passionate in the full sense of the word. He is an extremist.

Clearly, such behavior is anomalous if not downright pathological from a psychological point of view. But it *is* the behavior of many if not most creative geniuses in the arts and sciences. It is the behavior of religious mystics and of great athletes. It is also quite frequent among eminent leaders in other walks of social life.

Mises, the foremost theoretician of the logic of human action, considered the activities of such geniuses to be a special kind of behavior, in a category of its own within the general theory of human action. In his words: "The work of the genius is outside the orbit of ordinary human action and is like a free gift of destiny which comes to mankind overnight" (Mises [1949] 1998, p. 134).[7]

What sets obsessive-compulsive behavior apart from ordinary human action is that the agent denigrates all alternative objectives for his life. He is single-minded in his pursuits and does not care about weighing the pros and cons of different ends. He does not wish to economize or to compromise. He dedicates all of his attention and energy to the one goal that obsesses his mind.

There is no guarantee that such behavior will lead to great goods. However, if it is combined with the inborn talents of a genius, it provides a very fertile ground for great creative accomplishments. Mises ([1949] 1998, pp. 138–40) stated:

> For the pioneering genius to create is the essence of life. To live means for him to create For him there is no leisure, only intermissions of temporary sterility and frustration. His incentive is not the desire to bring about a result, but the act of producing it. The accomplishment gratifies him neither mediately nor immediately. It does not gratify him mediately because his fellow men at best are unconcerned about it, more often even greet it with taunts, sneers, and persecution. Many a genius could have used his gifts to render his life agreeable and joyful; he did not even consider such a possibility and chose the thorny path without hesitation. The genius wants to accomplish what he considers his mission, even if he knows that he moves toward his own disaster.
>
> Neither does the genius derive immediate gratification from his creative activities. Creating is for him agony and torment, a ceaseless excruciating struggle against internal and external obstacles; it consumes and crushes him.
>
> The creative accomplishment of the genius is an ultimate fact for praxeology. It comes to pass in history as a free gift of destiny. It is by no means the result of production in the sense in which economics uses this term.

Mises was right on target in pointing out that such accomplishments are gratuitous benefits for the rest of mankind. Beethoven was under no obligation to write his Symphony no. 9. All human beings may enjoy the writings of Dante, Shakespeare, and Goethe without having to pay the slightest bit. In the days of the internet, they do not even have to pay for a copy. However, *contra* Mises, we should not call all of these gratuitous benefits *gifts* in the narrow sense of deliberate donations to others. The creative genius may not have the slightest intention to provide any benefits to anybody else. He might do what he does because he does not care to do anything else. More often than not, he *unintentionally* provides gratuitous goods to others.

Cultural Commons

We have just seen how economic goods may be provided as side effects of leisure. But economic goods may also be the side effects of ordinary, self-interested activities. In his *Investigation into the Method of the Social Sciences, and of Economics in Particular*, Carl Menger famously argued that self-interested activities generate fundamental cultural goods such as language,

legal codes, the division of labor, and money. All members of society benefit from these goods, even those who have not made the slightest personal contribution to them. Such gratuitous benefits are cultural commons.

Cultural commons are of vital importance for human community and society. Whereas the goods of the cultural commons are often called social institutions, they have not been established by deliberate human choice. Menger ([1883] 1985, bk. 3, chap. 2, pp. 139ff.) argued that they slowly "emerged" as the combined effect of countless human activities, even though their creation was not intended by the acting persons.

Consider the case of money, the generally accepted medium of exchange. Menger emphasized that it was not instituted *ex nihilo*. It was *not* created by a genius who anticipated the great benefits of an economic good that could serve as a medium of exchange, a unit of account, and a store of value. Rather, money came into being as a consequence of individual activities that did not at all have the purpose of creating something like money but which merely strove to improve the situation of those individuals themselves.

The crucial first step in this process was the invention of *indirect exchange* to overcome the limitations of direct exchange (barter). When Peter exchanges his apples for silver *in order to* exchange the silver for a hammer, rather than hoping to find someone willing to barter a hammer for his apples, he greatly increases his probability of obtaining a hammer. But he has not thereby created money. Money comes into being when many *other* people like Peter start to exchange indirectly and when they use the same medium. This does not happen overnight. Money comes into being as a result of a long, winding process of imitation, of marginal improvements, and of marginal discoveries. Eventually a monetary economy comes into being without having been imagined, planned, or understood by any of the people who have brought it about.

Menger ([1883] 1985, p. 157) contended that this mechanism is a general one. It does not only concern money. In his words:

> In the same way it might be pointed out that other social institutions, language, law, morals, but especially numerous institutions of economy, have come into being without any express agreement, without legislative compulsion, even without any consideration of public interest, merely through the impulse of *individual* interests and as a result of the activation of these interests. The organization of the traffic in

> goods in markets which recur periodically and are held in definite localities, the organization of society by separation of professions and the division of labor, trade customs, etc., are nothing but institutions which most eminently serve the interests of the common good and whose origin seems at first glance to be based necessarily on agreement or state power. They are, however, not the result of agreement, contract, law, or special consideration of the public interest by individuals, but the result of efforts serving individual interests.

Cultural commons are a prime example of what we referred to as the unintended, "spontaneous," or side-effect production of gratuitous goods. The persons who contribute to generating these gratuitous goods do obtain certain immediate benefits, like the ability to gain information from an unknown person in the street, to settle a conflict, and to perform an exchange. But the gains conveyed by a language in which the meaning of signs is standardized rather than idiosyncratic go beyond the immediate benefits that result from *ad hoc* communication with hand signs and grunts and shrieks. Similarly, jurisprudence, which provides systems of general and universal norms, provides greater benefits than *ad hoc* arbitration. And, as we have seen, the benefits of the money-price system are far greater than those which result from using a panoply of idiosyncratic media of exchange. The advantage of being able to learn from and to inspire people in distant times and places springs from language, not from the ability to communicate *ad hoc*. The advantage of large firms and other social groupings extending through space and time springs from a coherent system of norms, not from the ability to settle conflicts with *ad hoc* compromise. The possibility of assessing the most suitable course of action in terms of a monetary calculus comes with the use of money, not with indirect exchange *per se*. Similarly, an extended and complex division of labor springs from the competition of different agents within the framework of the money-price structure, not from the ability of any individual, be he ever so brilliant, to plan human cooperation within a single organization.

The wider benefits of the commons are great gratuitous boons for mankind. Language is the very foundation of human civilization. Language, law, and morals greatly facilitate the division of labor. Yet nobody has a claim on them and nobody has the obligation to make them available. They are brought into existence, maintained, and developed by human actions that are, as a rule, driven merely by immediate gratification.

They are provided on a daily basis, but as a rule nobody intends to bring them about.

Menger was unequivocal in rejecting the idea that the cultural commons *were* created by deliberate human action. Clearly, there are deliberately created and privately owned network goods, such as football leagues, book clubs, and the internet. The economic benefits of these network goods can be privatized as well. But can the cultural commons be privatized? Does it matter whether money, law, and language result from a spontaneous process or are deliberately created? We will discuss these important questions in chapter 12.

Ownership

A surprising side effect of the market process is to promote market participants' desire to become owners and to act as owners.

The material benefits resulting from exchange are the reason why people desire to exchange. But they are not *per se* a sufficient reason for people to *fully own* all the things that they exchange. For example, most people today buy their family residence with borrowed money. More often than not, what they really want is to receive the benefits that come from *using* the house and to reap a profit from reselling the house at a higher price. They want to be beneficiaries, but they do not really wish to be owners.[8]

Ownership does not just involve some degree of effective control. It means responsibility. It means caring. An owner loves his property and looks after it. To be sure, this is not an altruistic or sentimental love affair. Ownership is a symbiotic relationship between the owner and his property. The mindset and the lifestyle of a person who owns a house outright are different from those of a person who owns no tangible property.

Now, in an unhampered market economy, people have an incentive to become full and exclusive owners of all durable goods because this is the most efficient way to obtain their associated benefits. The emphasis is on the word "unhampered." As we pointed out in the previous chapter (see pp. 153ff.), in a world without monetary interventionism, price-deflationary tendencies would prevail. In such a world, it would rarely be worthwhile to purchase something with borrowed money. In nearly all cases, long-run investments would be funded out of personal savings or out of family savings.

Present-day real-world economies are of course very different, most notably because of the reigning monetary interventionism. In part three, we

shall see how this difference is reflected in the cultural role of private property.

Here we need to emphasize that, in the absence of monetary interventions, price-deflationary tendencies would prevail. Debt finance would then tend to be more costly than self-finance out of savings, so that it would be desirable for all market participants to become full owners rather than mere users of durable goods. This also carries significant benefits for all *other* members of society, irrespective of whether these others own much, little, or nothing at all.

Let us highlight four relevant ways in which ownership entails positive external effects.[9]

One, private property reinforces responsibility. Costs and benefits (but especially costs) are borne by the owner. Waste is penalized. Frivolous and selfish uses of land and capital are also discouraged, as they represent opportunity costs for the owner. The owner is encouraged to invest in the property and to think creatively about how to make the most of it. Moreover, because the profits on a private resource accrue to its owners, more capital will eventually be available to the persons who have wisely used their resources to the benefit of other people (their clients). Because any losses also accrue to owners, resources are withdrawn from incompetent owners' control. This feedback mechanism facilitates the accumulation of capital and limits waste.

Two, private property naturally focuses people's attention on the protection and development of the economic goods that they control. Owners naturally slip into the role of prudent caretakers and stewards. The importance of this role is obvious as far as depletable natural resources are concerned. But it is no less important when it comes to the preservation and fructification of capital and personal savings.

Three, private property greatly facilitates decision-making in the context of the painful trade-offs which can divide members of any larger community.

Four, individual private property encourages long-term goals. This is especially important in cases where short-run sacrifices are significant but their future outcomes are uncertain. Without strong owners, such choices would rarely be made. Among groups of minority owners and "stakeholders" there is usually a bias in favor of carrying on with current practice. Individual property helps to correct this bias because it concentrates the long-run gains. This can tip the balance in favor of longer-run considerations.

Good Examples

Acting man employs means to attain ends. But how does he *know* which means are suitable to which end? Such knowledge comes through learning and reflection.

Man *learns* from nature through observation and systematic study. He observes what others are doing and follows their example. He reads books and receives formal instruction from teachers. He thereby comes to obtain different types of knowledge. Some knowledge pertains to the superficial aspects of an object: where and when it exists, its typical variations of color and weight, and so on. There is also deeper knowledge involving some of an object's causes and consequences and their limits. The deepest knowledge involves a comprehensive view of all of an object's causes and consequences, as well as of their interrelations.

Knowledge may conceivably be obtained gratuitously via divine revelation. Like lightning, an unheard-of idea may just come. But learning is different. Learning is not gratuitous, even though some men learn more quickly and more easily than others.[10]

In some cases, learning comes cheap. Imitating the behavior of others is usually not expensive in terms of time and money. But superficial knowledge is risky. Goethe immortalized its dangers in "The Sorcerer's Apprentice." It takes skill and effort to understand the practices of others. It takes even more skill and effort to improve on them, and it takes great talent and dedication to pioneer new and unheard-of products and practices.

These remarks are not meant to denigrate the economic merits of imitation. Quite the contrary. Our age is characterized by an infatuation with the new product and the technological pioneer. But the bread and butter of the market process is imitation and matching. Imitation may be fraught with risks, but entrepreneurs do not shy away from it.[11]

This brings us to the truly gratuitous element in learning and knowledge: *examples*. Although our learning is not gratuitous, the examples provided by nature and by other human beings are gratuitous indeed. We do not have to produce them, we do not have a claim to receive them, and nobody has the obligation to provide them to us.

Some good examples come in the form of donations. The moral education of children comes from the good examples provided by their parents. The latter more often than not make a conscious effort to behave in front of their children. Such efforts are donations.

But many other examples are not at all intended as gifts. Very often

they are provided against the wishes of those who give them. The example set by technology leaders, who are readily imitated by their competitors, is an important case in point, and it will be discussed in the context of the price effects of market exchange below. But it is not only technology leaders who provide gratuitous examples to their competitors. *All* entrepreneurs do this to the extent that their activities are visible to the outside world. Observing what one's competitors do—imitating the successful ones and avoiding the failures of the others—is the most elementary form of competitive behavior.

This also concerns the observation of groups and of nations. They, too, thrive and perish. They, too, provide good and bad examples to outsiders. The history books are full of examples of nations copying what they found worthwhile in other nations.

For example, the Romans adopted and assimilated what they perceived as the best elements of Greek culture. Rémi Brague (1999) famously called this assimilation strategy "the Roman way." Later on, the various Germanic tribes that flooded the territories of the disintegrating Roman Empire adopted the Roman way, too. They learned from the Greeks, from the Romans, and from all others who had something useful to offer. They practiced "cultural appropriation" systematically and on a massive scale. And their offshoots in other parts of the world have continued this pattern.

Arguably, the most resolute "cultural copycats" are the Jewish people, who have developed an astounding capacity to assimilate to, and contribute to, local cultures wherever they are—which is itself a significant cultural achievement. But cultural appropriation has also been practiced by other nations all over the world. Marvellous examples are Russia, Kemal Atatürk's Turkey, Japan, China, Korea, and various smaller countries in Southeast Asia.

The Roman way and other methods of cultural appropriation are forms of cultural free riding. The copycat nation receives the gratuitous example of a functioning culture that it admires and which it did not bring forth itself. How does a copycat nation make use of this example? Adopting it is one way, by starting to do things the other nation's way—eating, sleeping, loving, working, quarrelling, fighting, and making peace as the other nation would. Cultural appropriation of this sort goes hand in hand with transformation. The copycat nation changes its own behavior, attitudes, and outlook on life, its *Weltanschauung*.

An important consequence of adopting a culture is that the latter is thereby perpetuated, though not in its original form. Through adoption, the Romans preserved Greek culture, though with a Roman tint. The Germans

continued the Roman and Greek culture, though in a Germanic way. And so forth. These cultural copycats get a free ride, but their love for the adoptive culture leads them to keep it alive. We see here a give-give of the sort we discussed in chapter 4.

There is also a second way to free ride on other cultures. Here the beneficiary is *not* a copycat. He does not change his own behavior, attitude, and objectives. He simply reaps some of the fruits that flow from the culture of others. Examples are tourists, foreign residents, and, more generally, all people who live in cultural ghettos in a foreign land. The tourist enjoys the monuments and *art de vivre* of his destination. The expatriate might stay abroad for years, working or in political asylum, yet without abandoning his native culture. His objective is to enjoy the revenue, the security, or whatever other advantage there might be in store for him in his adoptive land.

In this second case, therefore, the host culture is not nourished. It is not imitated and not copied. It is drained. The cultural free rider "internalizes" some of the goods that flow from the culture. He might pay for these benefits, but he does not become part of the culture that brings them forth.

Other People's Errors

We have noted that mistakes and failures may gratuitously stimulate other people's *learning*. They may also convey *material* side effects to others.

Mistakes are by their very nature unintentional. Nobody *strives* to do a stupid thing. Error is always detected at some later stage, always after the wrong decision has been made. At the very moment when it is made, there is no intention to make a mistake. The acting person always sets out to do what he thinks is right and will be successful.

The unintentional benefits springing from human error are particularly striking and important in the context of entrepreneurship. The market economy is often characterized as for profit, and it is true that monetary profits are a driving force of market interactions. However, the aggregate benefits of the market economy do not at all spring from its profit orientation alone, but also from the prospect of losses. The market economy is not the profit economy. It is the profit-and-loss economy.

Both profits and losses spring from entrepreneurial error. An entrepreneur who suffers a loss has obviously made a mistake. He has bought factors of production at prices that were too high relative to the prices of his products. It is less obvious that investment errors are also the essential cause of *profits*, but this is very much the case. An entrepreneur

who makes profits benefits from the errors of others (see Knight 1921; Mises [1949] 1998, pp. 286–91). Indeed, if those others had invested in his line of business, then the factor prices would have been higher and the product prices lower. His profits would have been lower, or they might not have come into existence.

Errors do not merely entail a zero-sum redistribution of wealth, favoring some at the expense of others. They also entail *aggregate* benefits. As we have seen, the money-price system contains a feedback mechanism that facilitates the detection, correction, and minimization of errors. Each market participant can thereby gratuitously learn from the errors of others, with corresponding advantages for the economy as a whole.

The most powerful mechanism through which one entrepreneur may benefit gratuitously from the errors of others is through the liquidation of assets, which often allows him to purchase these assets at prices below production costs. Such material gains resulting from the errors of others play an important role in moving capital into those hands that use it best.

Similarly, an entrepreneur who overestimates the contribution that any factor will make to the revenue of his firm is likely to overpay for this factor. He may, for example, overpay for a tool that he buys from a supplier or overpay for labor. Clearly, he does not intend to hand out gifts. He is making a mistake. His suppliers and employees will earn a higher income than they otherwise would have.

Errors of this sort are unavoidable in a market economy. It is unavoidable that employees, suppliers, customers, and competitors will obtain such gratuitous benefits. This *has to be accepted in advance* by anyone partaking in the division of labor. It is a form of spontaneous gratuitousness. There is no intention to provide a gift. The contracting parties may or may not be aware of the problem of evaluation. They assume good faith on the part of their exchange partner.

Profits and losses have often been portrayed as abnormal or morally shady income components that need to be rectified. Like a vast inheritance, a large profit is often looked upon as an unwarranted or unjustified benefit —a "windfall" profit. It is not luck, but undeserved luck. Like a plague, a ruinous loss and the hardships of unemployment are often decried as unfathomable manifestations of cosmic injustice. Not bad luck, but undeserved bad luck. It is precisely the seemingly *gratuitous* character of profits that is irritating to critics and prompts them to cast moral judgments. Clearly, there are profits that are illegitimate, most notably those obtained by illegitimate means, such as false advertisement, lies, threats, and force. But most profits are not of this sort. They are not only

normal, but essential and beneficial elements of a market economy.

The usual response to the critics of profits and losses is that the profiteer *did* deserve the money he gained, that he worked much and hard and outwitted his competitors. This argument misses the point. There are lots of smart and hardworking people, but few of them ever make very large profits. Such profits only come into being when *other* people who could have supplied the same or similar services do not act. That they did not act can never be the merit of the person who did act and therefore did earn the profit. His merit is that he did the right thing, whereas his potential competitors did not. But the profit results from the error of these others, not from his own deeds.

Side Effects of Exchange

Value Effects

First-year students in economics learn the concepts of "consumer surplus" and "producer surplus." Most consumers do not pay quite as much as for the good in question as they *would* be ready to pay if they had to. They obtain a consumer surplus. Similarly, most producers obtain a higher payment than the payment for which they would sell if they had to. They obtain a producer surplus.

This phenomenon does not only concern the exchange of consumers' goods. It is a universal feature of exchanges. If Smith exchanges his apple for Brown's pear, then this means that Smith prefers the pear to the apple, whereas Brown prefers the apple to the pear. Both sides gain in this deal. The key factor here is that the exchanged goods *cannot* have the same value. The apple cannot have the same value as the pear, and the pear cannot have the same value as the apple. Rather, the apple-pear exchange manifests a *two-fold personal-value difference*. The price that the buyer pays is for him always less valuable than the good that he acquires (first difference) and the two goods have different personal values for each of the two partners to the exchange (second difference).12

Although the value effects of market exchange are well known among economists, most non-economists believe that the exchanged goods have (or should have) the same value. One example among many is in the encyclical *Caritas in veritate*. Pope Benedict XVI presumes that a just exchange is by its very nature an exchange of equal values. This *equivalence postulate*, as we shall call it, is not spelled out in great detail. It is implicit and shines through in various statements, most notably in the passage

(quoted in the introduction) where the Holy Father belittles the inner logic of a market exchange as "the mere logic of the exchange of equivalents" (Benedict XVI 2009, sec. 38).

The origin of the equivalence postulate is Aristotle's analysis of the nature of a just exchange, as presented in the *Nicomachean Ethics*. Aristotle postulated that any exchange could only be just if the commodities exchanged had the same value. This view has inspired all subsequent generations of philosophers, but also the Christian theologians of the Western world, and even the classical economists. We will discuss its shortcomings in the next chapter. Here we need to emphasize right away that, whatever its merits may be as far as the *justice* of an exchange is concerned, it is irrelevant for the *causal analysis* of exchange. When Smith exchanges his apple for Brown's pear, economists are only tangentially concerned with the justice of this interaction. Their main interest is to know *why* Smith exchanges his apple for Brown's pear. And the only answer is the one that we have stated: Smith and Brown exchange because Smith *prefers* the pear to the apple, whereas Brown prefers the apple to the pear. The subjective value difference is the effective cause that makes the exchange happen. Without this value difference, no exchange would take place. No exchange *could* take place.

This is the economic point of view on the nature of exchange. It nicely completes the moral and juridical points of view in the study of gratuitous goods. The eyes of the lawyer allow us to see the bonds of claims and obligations between a buyer and a seller. The eyes of the economist allow us to see that such claims and obligations are not equivalent. Each exchange is based on a *disagreement* about the value of the exchanged goods. Both the buyer and the seller cherish their own claims more than the corresponding obligations. Each one receives value in excess of the value he gives, and the price he pays is sufficient and just to acquit him of his obligation. The inner logic of a market exchange is *not* "the mere logic of the exchange of equivalents," but the logic of two-pronged gratuitousness in the midst of a contract. Both sides win, even though neither may have intended the other to win. In each exchange, there are beneficial side effects for both partners.

These benefits are spontaneous. They do not have to be specially arranged with win-win deals. They exist independently of the intentions of the market participants. This does not mean that they may not possibly be intended. If Brown and Smith understand the logic of exchange, then they know that each of them benefits therefrom, and they might then *also* conduct their exchange because they wish to provide such gratuitous goods to each other. Yet even if Smith and Brown were ignorant of basic

economics, these spontaneous goods would nevertheless result from their exchange. The trading partners might very well *believe* that they are giving just the value that they receive. But such ignorance would not alter the fact that their exchange entails gratuitous goods. The partners to an exchange could do nothing to prevent this even if they so wished. They could refrain from exchanging, but that would be the only alternative. As soon as they engage in an exchange, they cannot prevent the double gratuitousness that it inexorably generates.[13]

According to John Mueller (2010, chap. 2), the modern economic theory of the nature of exchange goes back to Saint Augustine, who in *The City of God* (1993, bk. 11, sec. 16, p. 447) introduced the idea of *ranking* goods in terms of utility. It was but a small step from there to understanding that in any exchange, the partners rank the goods differently. In the sixteenth century, Luis de Molina expressed this idea in his *Theory of Just Price*, stating that the just price of goods "depends on the relative appreciation that each man has for the use of that good."[14] The Jesuit Molina was a member of the School of Salamanca, which in the sixteenth and seventeenth centuries slowly started to realize that Aristotle's approach was wrongheaded. The justice of an exchange is not determined by the *quality of its objects*, but by the *quality of the decisions that bring it about*. The primary questions are whether the property rights concerned are legitimate and whether consent is free and informed (see Chafuen 2003, p. 90). When these conditions are given, the exchange is just, and the market price that results from "common estimation" is a just or natural price.

Wealth Effects

Market exchanges not only generate the value effects that we have just discussed, but also price effects that are similarly unintended.

When the supply of *any* good increases, so that its market price sinks, the buyers are enabled to purchase greater quantities of *this or other* goods. They may therefore obtain greater quantities of goods in exchange for the ones that they themselves supply to the market. Whereas value effects make the market participants *subjectively* better off, such price effects make them *materially* better off. They come to own—or, more generally speaking, to control—more economic goods than they would have if the supply had not increased. This is why such price effects are usually referred to as income effects or wealth effects in the economics literature.[15]

However, the standard microeconomic literature completely fails to appreciate that wealth effects of this sort are unintentional. That they are unintentional is most obvious in the case of price decreases which result

from an increase in production. The general purpose of production is to alleviate scarcity. Increased production of any good means a greater abundance of it, which means that the good in question now has a lower marginal value. Now, a person who does not produce commodities for the market—think of Robinson Crusoe— *intends* this reduction of marginal value. When Crusoe grows potatoes, he wishes potatoes to become less important in his life, so that he can turn to other things. When he solves any problem, the point is precisely to reduce the importance—the value—of that problem. Solving a problem means creating a state of affairs in which no further action is required.

By contrast, in the context of the division of labor, the purpose of productive activities is to create goods that have value for other people. The producer does not necessarily intend to solve other people's problems once and for all. He intends to exchange his product. His self-interest is *not* to reduce, but to increase the value that his product has for others. There is therefore a tension between his material self-interest (increasing his product's value) and the objective consequence of his production (reducing his product's value). In this sense, we may therefore say that the reduction of the subjective value of one's products—and the resulting reduction of their market price—is an unintentional consequence of production in the context of the division of labor.

This unintentional effect is an important mechanism through which gratuitous goods are conveyed to others through market exchanges. Indeed, although there seems to be no gratuitous element in market exchange, a gratuitous element is in play in *modifications* of the exchange ratio. If three eggs are exchanged for one dollar, then one dollar pays for all three eggs. All benefits of the eggs are included in the price. But the question is: Why does a dollar buy three eggs rather than just one? Each increase in productivity improves the exchange ratio from the point of view of the customer. Each improvement is driven by the selfish profit motive of the producers. But the unintended consequence is to provide the customers with better deals.

Moreover, these unintended benefits of increased productivity do not remain confined to the exchanges in which they first appear. When a farmer works longer hours, produces more wheat, and sells his wheat at lower prices, then the buyers will tend to purchase wheat from him rather than from other farmers. As a consequence, these others will only be able to sell their wheat by lowering their prices, too. All buyers of wheat will therefore have more money available for other purchases. Their real incomes will increase. Thus we see that the price movement that started

with the resolve of one man comes to spread through the rest of the economy. Similarly, when one shoe-maker improves the *quality* of his products, all other shoemakers need to propose better deals as well. To stay in business, they either need to lower their prices or increase the quality of their shoes. In all cases, the initial improvement entails an unintentional multiplication effect.

Competition

The foregoing consideration can be expanded and generalized by focusing on the nature of competition. In a famous essay on this topic, F. A. Hayek ([1946] 1948) argued that competition should not be defined as a *state of affairs*, and much less as a state of perfection, but as a *process* of piecemeal improvements.[16] It is the process that improves the terms on which customers are served.

Hayek criticized the standard neoclassical model of pure and perfect competition. This model depicts a state of general equilibrium in which no human error occurs and where all prices are equal to their costs of production. Equilibrium prevails because all market participants benefit from perfect foresight, because their share of the market is infinitely small, and because they operate in a world in which all goods are perfectly divisible.[17] It is obvious that this model does not represent any real-world economy, but it has been widely held to be a depiction of ideal market competition. On this point Hayek disagreed. He argued that the model misunderstands the very nature of what it seeks to explain. It depicts an "unachievable and meaningless ideal" (Hayek [1946] 1948, p. 100). Competition is not an optimal *state* of affairs. It is a process of improvement. Firms in a market economy try to provide economic goods on *better terms* than their competitors (by selling at lower prices, providing better goods, offering faster delivery, and improving their customer service).[18]

This perspective on the nature of competition is also relevant to the theory of gratuitous goods. By definition, competitive behavior in Hayek's sense entails *additional* benefits for other market participants. These benefits are *gratuitous* because in the cases Hayek envisioned, there is no obligation for individuals or firms to improve anything whatsoever and their customers do not have any right to claim such improvements. Moreover, these benefits are provided *spontaneously* because they do not strictly depend on the firms' intentions.

This last assertion calls for a clarification. It seems to contradict the fact that all firms' revenue depends on customer satisfaction and that virtually

all firms are acutely aware of this. In response to this objection, we should stress the distinction between ultimate and instrumental goals. The fact that firms are conscious of the importance of customer satisfaction does not mean that their *ultimate* objective is to benefit the customer. The ultimate objective might very well be to increase the firm's bottom line. Customer satisfaction would then enter the picture only from an instrumentalist perspective—it would be a means, or intermediate goal, to obtain profits.

In the context of a shrinking economy, entrepreneurs might very well make more money than before, even though their output is decreasing in quality and quantity. Yet even then, competition leads to product prices that are *relatively* low and product quality that is *relatively* high—compared to the prices and quality that would exist without competition.

Hence, we maintain our conclusion. The competitive market process provides spontaneous gratuitous benefits to the market participants. It is true that the latter pay for all the goods that the firms sell to them. But the point is that the relation between what they have to pay and what they receive tends to change in their favor. Thanks to competition, they may buy more and better products at lower prices. Their *real* income and their real wealth increase, even though their *monetary* income and their monetary wealth may remain unchanged. These improvements are obtained through the activities of people who are not necessarily driven by the ultimate desire to improve the lot of their fellow human beings.

Abundant Monetary Services

Another important and astonishing side effect of exchange is the abundance of monetary services, which we highlighted in chapter 2 (see pp. 87ff.). Any good that is used as a generally accepted medium of exchange can provide abundant services—in fact, unlimited exchange services—making it unnecessary to increase the money stock. The reason is that the services provided by money depend on its purchasing power, and the latter increases whenever the demand for money increases. If the demand for apples increases at a given stock, then apples become increasingly scarce. But if the quantity of money remains constant while the demand for money increases, money will provide ever more exchange services because its purchasing power will rise.

Technological Progress

The most striking case of the beneficial side effects of the competitive market process is the spread of technological innovations. New ideas spread

through imitation and emulation. They can be transmitted fast and at low cost whenever imitating and emulating others is not impeded by intellectual property rights. In a free market, technological progress is limited only by the capital that is needed to apply new ideas. The latter can be adopted and copied by virtually all other market participants who have the intellectual ability to understand them and the capital to implement them. The economic value of new ideas is therefore limited by the time it takes imitators to understand and replicate them.

The first farmer who uses a wheelbarrow to carry his fruit to market is able to offer better terms than his competitors. He earns more revenue than they do. But when the latter understand his exploit and start to imitate him, all of them can offer the same terms. The consequence is that none of the farmers now receive much more revenue. All the benefits go to the customers. These benefits are *gratuitous* because there is no obligation for any farmer to provide fruit at a lower transportation cost and their customers do not have any right to claim such improvements. Moreover, these benefits are side effects because they do not strictly depend on the farmers' intention to benefit their customers.

Bastiat (2007, p. 205) stated these facts with admirable clarity:

> Nothing, whether favorable or unfavorable, can abide permanently with the producer. The advantages that nature and society bestow upon him, the inconveniences he may experience, pass through him, so to speak, and are absorbed and mixed up with the community in so far as the community represents consumers.

He illustrated this principle with the example of the invention of the printing press:

> In the first instance, one man was enriched, and many others were impoverished. At first sight, marvellous as the invention proves itself to be, we hesitate to decide whether it is hurtful or useful. It seems to introduce into the world, as I have said, an indefinite element of inequality. Gutenberg profits by his invention, and extends his invention with its profits indefinitely, until he has ruined all the copyists. As regards the public, in the capacity of consumer, it gains little; for Gutenberg takes care not to lower the price of his books, but just enough to undersell his rivals. (Bastiat 2007, pp. 206–7)

But things do not remain this way. Bastiat went on:

> At length the invention comes to be known. Gutenberg is no longer the only printer; others imitate him. Their profits at first are large. They are thus rewarded for having been the first to imitate the invention; and it is right that it should be so, for this higher remuneration was necessary to induce them to concur in the grand definite result that is approaching. They gain a great deal, but they gain less than the inventor, for competition now begins its work. The price of books goes on falling. The profit of imitators goes on diminishing in proportion as the invention becomes of older date; that is to say, in proportion as the imitation becomes less meritorious The new branch of industry at length reaches its normal state; in other words, the remuneration of printers ceases to be exceptionally high, and comes, like that of the copyists, to be regulated by the ordinary rate of profits. Here we have production, as such, brought back to the point from which it started. And yet the invention is not the less an acquisition; the saving of time, of labor, of effort to produce a given result, that is, to produce a determinate number of copies, is not the less realized. But how does it show itself? In the cheapness of books. And to whose profit? To the profit of the consumer, of society, of the human race. The printers, who have thenceforth no exceptional merit, no longer receive exceptional remuneration. As men, as consumers, they undoubtedly participate in the advantages that the invention has conferred upon the community. But that is all. As printers, as producers, they have returned to the ordinary condition of the other producers of the country. Society pays them for their labor, and not for the utility of the invention. The latter has become the common and gratuitous heritage of mankind at large. (Bastiat 2007, pp. 207–8)

He concludes:

> What I have said of the art of printing may be affirmed of all the instruments of labor, from the nail and the hammer to the locomotive and the electric telegraph. Society becomes possessed of all through its more abundant consumption, and it enjoys all gratuitously, for the effect of inventions and

> discoveries is to reduce the price of commodities; and all that part of the price which has been annihilated, and which represents the share invention has in production, evidently renders the product gratuitous to that extent. (Bastiat 2007, p. 208)

It follows that in a free society, virtually all the benefits of technological progress fall on the final consumers, who gratuitously reap lower prices and better products.

The Theory of Positive Externalities

Present-day economists do not use the expression "side-effect benefits." When they deal with the unintended repercussions of market exchange on third parties they speak of externalities. The problem is that this beautiful expression is used in a very special sense which precludes using it outside of the framework of the standard neoclassical theory. In what follows we shall briefly explain what is here at stake.

External effects, or externalities, are external to a market exchange in that they are not covered by the terms of the contract. They are not paid for. They are *positive* to the extent that outsiders benefit from them without paying. They are *negative* insofar as outsiders are harmed without compensation. The standard example of a positive external effect is the presence of a national army, which protects even those residents who have not paid for its services. The standard example of a negative external effect is the pollution from a nearby factory chimney.[19]

Although these distinctions are valid and important, the standard microeconomic approach to external effects is deficient and leads to disastrously wrong policy conclusions. The reason is that it deals with externalities only in a highly contrived way; namely, by reference to the Arrow-Debreu theory of general equilibrium.

This theory *presupposes* that in general equilibrium literally all goods are paid for unless they are explicitly transferred as gifts; and that such a situation of complete markets is optimal. We will discuss these assumptions in more detail in chapter 7. Here we should highlight that, in an Arrow-Debreu equilibrium, there simply cannot be any side-effect benefits of the sort that we have discussed in this chapter. Wherever such side effects are present, the economy must *ipso facto* be in *dis*equilibrium and therefore performing suboptimally.[20] Similarly, the only *pecuniary* externalities known in present-day microeconomics are externalities resulting from various mistakes. People who do not perfectly foresee all the exchanges

which they will make during their lifetimes, and which their descendants might make, are likely to make errors of various sorts. These errors will show up in market prices that are either too high or too low in comparison to the perfect-foresight benchmark, and there will be pecuniary advantages and disadvantages for other people in comparison to this benchmark.

However, we have seen that this is not a zero-sum game. Errors entail aggregate side-effect benefits. We have also seen that a market economy will always and everywhere entail various side-effect goods that do not spring from error at all. Within the ArrowDebreu framework the presence of all such goods denotes a state of imperfection; namely, a lack of markets. All goods should be paid for unless they are intended as gifts. Otherwise, the economy cannot reach its full productive potential. In other words, external effects are market failures, and they stand to be corrected through suitable government interventions.

These stipulations have wreaked great havoc. They have led economists to underappreciate one of the most important aspects of for-profit activities and market exchange; namely, their tendency to systematically generate gratuitous goods, both for the people involved in such activities and for other market participants. To stay clear of these pitfalls, we shall discuss the theory of positive externalities in some more detail in chapter 7.

Side Effects of Savings

We have already emphasized that savings are crucially important for donations. Without savings, donations are quite simply impossible. But even savings that are not intended for donations—notably monetary savings, irrespective of whether they are invested or hoarded in cash—entail various beneficial side effects for other people, who typically do not pay for them.

Money Hoarding

Consider the consequences of an increase in the demand for money, or, as it is known in ordinary language, an increase in money hoarding.

Such an increase entails a tendency for the price level to sink or, what is the same thing, a tendency for the purchasing power of all money units to rise. Hence, thanks to the behavior of the money hoarders, all other market participants, who do not hoard but spend their money, can buy more goods than they could otherwise have bought (see Friedman 1969, p. 15; Patinkin 1956, p. 21).

Let us illustrate this effect with an analogy. Suppose Smith stands in a

long line at a theater ticket booth. Now some people standing before him step out of the line. They just changed their minds and no longer wish to see the show. Smith then gets to buy his tickets faster. It is also possible that he is able to get tickets, whereas the show might otherwise have been sold out before he even made it to the booth. Clearly, Smith receives a benefit through the withdrawal of these other people. It is a *gratuitous* benefit because these others were not obliged to step out of the line, and Smith had no right to expect this service. It is a *spontaneous* gratuitousness because the benefit obtains independently of whether these others and Smith himself realize the implications of their actions.

In just the same way, the additional economic goods which some market participants can buy, thanks to the increased money hoarding of other market participants, are *gratuitously* provided to the beneficiaries. For the hoarders there was no obligation to hoard more than before, and the beneficiaries had no right to expect the hoarders to hoard more. These benefits were obtained *spontaneously* because they did not depend on the intentions of the money hoarders. Whether they knew it or not, and whether they liked it or not, their hoarding entailed gratuitous benefits for other market participants.[21]

Those other market participants, in their turn, are not likely to notice the fact that they are the beneficiaries of such gratuitousness. After all, they *pay* for the goods that they buy. They might never ask themselves why they had to pay higher prices before. They might never ask themselves why they pay lower prices now. But if they looked at the world with the eyes of an economist, they would understand that they received a gratuitous service from the money hoarders, in the same way that Smith benefitted from those who stepped out of the line before him.

The social consequences that spring from cash hoarding are very different from those that follow from the stockpiling of any other good. The stockpiling of wheat, oil, apples, and many other goods is necessary for keeping the goods available through time. But stock-piling has the immediate effect of depriving all other people of the services of these goods. The oil that is kept in reserve does not serve current consumption. Oil's market prices are higher than they would be if the oil were sold right away. Similarly, the wheat that is held in a silo could have been sold right away, with the effect of lowering prices in the near term (and the potential adverse effect of increasing prices in the more remote future).

The stockpiling of money has very different effects. The reason is *the services of money are rooted in its market prices*, whereas the services of all other goods do not have anything to do with their prices. What makes oil

and wheat useful does not depend on their prices. But what makes money useful very much depends on its prices. When money is hoarded, its prices increase, just as in the case of oil and wheat hoarding. But as we have seen, the effect is that money owners now enjoy a greater purchasing power. In other words, the stockpiling of money conveys *immediate* benefits to others.

Savings-Induced Capital Accumulation: The Carey-Bastiat Effect

We have seen that savings in the form of money hoarding, entail gratuitous benefits for other market participants. But savings also bring about very similar effects when they are invested. To explain this momentous effect, we need to start off with a few preliminary remarks on the relationship between time and human productivity.

The more time we can spend on any venture *before we have to get results*, the better may be the results. More hours and days worked can lead to better products and to more products. But this is not only due to an increase in production, but also to an increase in production *per hour worked* (an increase in labor productivity).

This is *not* so because we can spend more time on the final products themselves. If we were to spend more time baking cakes with the same methods as before, then we would get more cakes, but not more cakes *per hour*. By contrast, our productivity increases when we can take time to create various tools to facilitate our labors. It increases when we can devote more attention to preparing for work and to coordinating with others, which brings us to our point: the more time we have before we have to get results, the greater can be the *proportion* of that time that we may devote to increasing productivity. If we do this in the right proportion, then the overall productivity of our labor will increase.

Now, the economic function of savings is to give us more time before results have to come in. When savings are invested and thus turned into capital, they can be invested in such a way that they *fund the consumption* of people who do not directly churn out any final products but who create tools and contribute to the production process in various other ways. This is why an increase in savings allows the productivity of labor to increase. Even if the population does not grow, even if people do not work longer hours, the overall output may still increase.

How is this additional output or surplus divided among the market participants? Here the following circumstance is crucial: when more savings are invested, capital becomes less scarce than it otherwise would have been. As a consequence, the return on capital on the market—in the form of interest rates and profits—will tend to fall. Since on the market all units of

the same good tend to be remunerated by the same price (the law of one price), all units of capital, old and new, will tend to be remunerated less than before.[22] And this implies, in general, that the proportion of aggregate revenue that is earned by the owners of capital falls over time relative to the proportion earned by those who provide labor services.[23]

In other words, whereas it is the savers who sacrifice their own current consumption and who bear the uncertainty of investing, the benefits largely go to other market participants. When savings increase, capital still earns a return on investment, but it is less than before. Savers are still remunerated, but they do not reap all the fruit of what they have planted. A large part of the benefits accrues to people who have contributed nothing to enhancing the productivity of their own labor. It is the savings-induced process of capital accumulation that provides gratuitous economic goods to them. The savers had no obligation to save, and the beneficiaries had no claims on any additional benefits.

In many cases, such savings-induced gratuitous benefits are an advantageous and lasting legacy to subsequent generations. The drainage of swamps, the construction of buildings and roads, and all the intellectual achievements of previous generations provide gratuitous benefits to the living for generations to come. As Mises ([1949] 1998, p. 489) put it, all of us are "the lucky heirs of our fathers and forefathers."

This insight about capital accumulation goes back to Henry Charles Carey (1837, pp. 140–41; 1851). A few years later, Frédéric Bastiat came independently to the same conclusions. In distinct contrast to Carey, however, Bastiat highlighted the *gratuitous* nature of the benefits that spring from savings-induced capital accumulation. Indeed, capital accumulation made it possible to put the gratuitous forces of nature at the service of man. Furthermore, Bastiat underscored that the presence of gratuitous gifts of nature is of central importance for the entire science of wealth. In his words:

> Gravitation, volatile gases, the power of the wind, the laws of equilibrium, plant and animal life—these are so many forces that we learn to turn to our advantage. The pains, the mental energy, we expend to accomplish this are subject to payment, for we cannot be required to devote our efforts gratis to another's advantage. But these natural forces, considered in themselves alone, and without reference to any intellectual or physical labor, are *gratuitous* gifts from Providence; and, as such, remain without *value* through all the complications of

> human transactions. Such is the central idea of this work. (Bastiat [1851] 1996, pp. 50–51)[24]

Bastiat contended that in a growing society the amount of gratuitous goods constantly increases, while the amount of goods subject to payments stagnates. He arrived at this conclusion via a four-step argument (see Bastiat ([1851] 1996), pp. 51ff.).

One, he considered that the utility derived from forces of nature always comes free. Fruit grows, corn grows, cattle and fish multiply, water runs downhill, steam pressure drives a turbine. None of this needs human action to happen. It comes free. Parents' spontaneous love for their children comes free as well, in the sense that parents do not have to be paid to love their children.

Two, a payment is only needed as compensation for others' services because the time involved in rendering these services might be used elsewhere. Human action is needed to pick fruit; to plant and protect fruit trees; to make soil arable; to plant and protect corn; to develop and build a water turbine; and to build and develop a steam engine. But *why* should one do these things for the immediate benefit of others? Either because of love for these others or because the latter *pay* for these services.

Three, Bastiat argued that customers pay *only* for human services, and never for the forces of nature, which always come free. The reason is that competition drives down the prices of commodities to a level that corresponds to the compensation for human services.[25]

Four, a progressing economy is characterized by a permanent increase in capital and in technical knowledge. *More capital* makes it possible to harness more natural forces and thus to produce more goods, or better-quality goods, with the same amount of labor as before. Hence, the gratuitous part of the overall product increases while the part that has to be paid remains the same. *Greater knowledge* makes it possible to transform natural resources into products in less time. As the gratuitous benefits of the overall product increase, the unit costs of production decrease.

It is true that Bastiat was steeped in the classical cost-of-production theory of prices. Consequently, his theory is flawed to some extent as far as the precise influence of human choice on market prices is concerned (see, for example, the early critique in Walras 1860, pp. 47–57). Similarly, one might admonish his binary distinction between gratuitous forces of nature and payable human services. But his insight into the meaning of capital accumulation—that it allows man to put more and more natural forces at his service—is unshakeable. It is the starting point of modern capital

theory.

Gratuitous Evil Resulting from Market Activities

In the preceding pages, we have studied the beneficial side effects of the market process. We have seen that market exchange is not an exchange of equivalents. All market participants materially benefit in one way or another from the contributions of others, even of those with whom they do not have any direct contractual relations. In other words, gratuitous goods are built into the DNA of a market economy. Social cooperation based on private property and exchange can be understood as one great organism geared toward the production of gratuitous services.

But could one not argue that, for the very same reasons, gratuitous evil, too, belongs to the very nature of a market economy? After all, when people are free to choose, they might choose to do bad things. Bad things can also be occasioned inadvertently, coming in the form of negative side effects. The liberty and success of some might very well come at the expense of other people. There is always someone who benefits from the constant improvements that characterize the competitive process. But what about those who cannot effectively compete? Did we not focus too one-sidedly on the gratuitous good that may be produced in a market economy while neglecting the gratuitous evil that also seems to be part of the story?

We answered this question, though implicitly, when we discussed the definition of gratuitous evil (see pp. 58ff.). We then saw that a gratuitously evil deed is an action carried out *in violation of one's obligations*, or in violation of other people's rights. Accordingly, *gratuitous* harm is harm inflicted on a person *despite this person's contrary right* and *in violation of the perpetrator's corresponding obligation to the person*.

In other words, although competition—within and outside of the market—involves advantages for some and disadvantages for others, the latter are not *gratuitous* disadvantages. The harm is real, but it is not gratuitous harm.

Gratuitous harm is not just anything that displeases us. If Helen decides to marry Paul rather than John, then this might very well be bad luck and heartbreaking for John, but it is not evil, nor is it gratuitous evil. If most people in a neighborhood decide to buy their bread from baker A rather than from baker B, this is not a manifestation of gratuitous evil inflicted upon B. For gratuitous evil to exist, there must be an obligation, and a corresponding a claim, which comes to be violated by the evildoer.

We speak of gratuitous violence and gratuitous insults precisely because there is a moral obligation to respect the person and property of others.

Air and noise pollution are often referred to as typical negative externalities of the market. But they are not always and everywhere gratuitously harmful. Suppose Mary suffers from the noise and smoke of an airport situated right next to her residence. These negative externalities are real. But they do not represent *gratuitous* harm *unless Mary lived there first* and the airport later started operating next door without Mary's consent. If the airport was there first, Mary can not claim that her person or property is being injured against her will. In other words, the history of the case is decisive. Murray Roth-bard (1982), who emphasizes this crucial consideration, also points out that the harm must be *demonstrable*. Even if the airport moves in later, the smoke, gas, and noise emitted by the planes must measurably and intolerably impact Mary's life and property. If the airport operator takes precautions to reduce all emissions to sufficiently low levels, there is no illegitimate harm to nearby residents.

As long as the legal professions operate with any modicum of efficiency, gratuitous harm can only be marginal and ephemeral. If the airport harms Mary demonstrably, then Mary has a claim on the airport to cease and desist immediately. And the same thing holds true with all other cases of negative external effects. This implies that gratuitous evil is as a rule intentional and can be a regular and permanent side effect of human action only in exceptional circumstances (under a corrupted legal and political order). He who violates his obligations usually knows these obligations, and therefore he violates them intentionally. Things would be different only if he could claim ignorance. Then his action, though in violation of the obligation, could not be said to be intentional. It would entail *spontaneous* bad effects on others, rather than intentional ones.

1This distinction is crucial from a moral point of view, too. See the discussion in Rhonheimer (2001, pp. 102–15, 332–41). See also Keown ([2002] 2018, pp. 22 ff.). Keown distinguishes the intended from the *foreseen* effects of medical interventions.

2Catherine Gbedolo (2015, chap. 7) discussed three instances of spontaneous gratuitousness: means of production which are privately owned but (spontaneously) controlled by nonowners; entrepreneurship that creates information externalities; and the contributions of creative geniuses. Boulding (1973, chap. 4) touched on the subject of spontaneous gratuitousness under the misleading expression "implicit grants," which he defined as "redistributions of

income and wealth that take place as a result of structural changes or manipulations in the set of prices and wages, licences, prohibitions, opportunity or access; they are anything, in fact, that is not a direct or explicit grant that leads to economic redistributions. There are many examples of this phenomenon and we cannot do more than outline a few of them" (p. 49). He went on to discuss the implicit grants resulting from monopolies, tariffs, shifts in consumer demand, shifts in advertising, quotas, rationing systems, price controls, licensing, foreign-exchange controls, and credit and finance, as well as from monetary, fiscal, and environmental policy. The problem with Boulding's approach, at any rate in light of our present purposes, is that it conflates market phenomena and interventionist phenomena under the single heading of "transfers" or "grants." Boulding is most convincing when he explains how government interventions create unintended winners and losers. But his discussion of the implicit grants generated through the market process is rudimentary and unpersuasive. For example, he argues that unanticipated shifts in consumer demand create winners and losers among the producers. This is correct, yet it does not demonstrate the importance of shifts in consumer demand but of anticipations (p. 53). Similarly, although advertising is indeed "a one-way transfer of information," it is not *per se* gratuitous nor is its impact on the distribution of income unintended (p. 53).

3 Substantial research has been carried out in order to find ways to assess the monetary value of goods that are not exchanged (see, for example, Appéré 2004; Travers 2008). We do not aim to insult the ingenuity of the authors by observing that their results are, at best, educated guesses and do not match the evidence of market prices.

4 Arguably, mankind's most important goods are immaterial goods that cannot be purchased. Love, faith, and hope are of this sort. According to Christian theology, they are divine gifts or graces that come from God and cannot be brought forth by any human activity.

5 Eternal life is another one. In Matthew 16:25 we read: "For whoever wishes to save his life will lose it, but whoever loses his life for my sake will find it." Similarly, "whoever finds his life will lose it, and whoever loses his life for my sake will find it" (Mt 10:39). See also Lk 9:24, Lk 17:33, and Jn 12:25.

6 Friends *are* made, and in this respect friendship is deliberate. But the foundation for genuine friendship is a virtuous life.

7 The meaning of creativeness and the social role of geniuses was a longstanding theme in Mises's thought, running from *Gemeinwirtschaft* (1922) via *Human Action* (1949) to *Theory and History* (1957) and *The Ultimate Foundation of Economic Science* (1962). For a discussion, see Hülsmann (2007, pp. 966–71).

8 The theory of ownership has been much confused by the debates on managerial capitalism, stakeholder capitalism, and quasi markets (as substitutes for central planning). The central question in each case concerns the *raison d'être* of owners. Do they matter? Can owners be fully replaced by technically skilled managers?

Many writers have answered affirmatively (see, for example, Keynes 1926; Berle and Means 1932; Hughes 2018), but the truth of the matter seems to be that owners can have more or less control but always act as owners, whereas pure managers can never act as owners, however much they might control (see Mises [1949] 1998, pp. 699–712, and more recently Foss and Klein 2012). Below, we will occasionally comment on the rise of managerial capitalism in light of the theory of interventionism.

9The following list is adapted from Hülsmann (2018). See also Aristotle's (1995) *Politics*, 1261b–1263b; Aquinas (1948, II-II, q. 66, art. 2).

10See Stigler (1961). Omar Al-Ubaydli and Terence Kealey (2000) have rightly stressed this point in their critique of Paul Romer's (1986, 1990) endogenous growth theory. Romer *presupposes* that knowledge is gratuitously obtained and transmitted to others. He therefore argues that knowledge is a non-excludable and non-rivalrous "public good" that should be produced by the state through the funding of education and research. But this argument fails by its premise.

11The imitation of *consumption* patterns—mimetic consumption—has received much attention from economists, sociologists, and anthropologists, most notably Tarde (1895), Veblen ([1899] 1934), and Girard ([1982] 1986).

12See Condillac (1776, chap. 2); Menger ([1871] 1976, pp. 156–57); Mises ([1949] 1998, p. 97); Rothbard ([1962] 1993, pp. 71–73); Boulding (1973); Callataÿ (2011, pp. 121–22).

13Even if they buy something that they despise only to refute our contention, they would still be caught up in this logic of market exchange because they would *prefer* the purchase to keeping their money.

14Molina (1981, p. 168); quoted in Chafuen (2003, p. 84).

15See Karl-Friedrich Israel (2018, 2020, 2021). Jacob Viner (1931, pp. 38f.) had called these wealth effects pecuniary external economies.

16See also Hayek (2002; 1979, chap. 15, pp. 406ff.).

17The model goes back to Walras (1874) and Knight (1921). See the discussions in Machovec (1995), Salin (1995), and Machaj (2021).

18"A person who possesses the exclusive knowledge or skill which enables him to reduce the cost of production of a commodity by 50 per cent still renders an enormous service to society if he enters its production and reduces its price by only 25 per cent—not only through that price reduction but also through his additional saving of cost" (Hayek [1946] 1948, p. 101).

19In the introduction, we highlighted that the theory of externalities goes back to Marshall ([1890] 1920) and Pigou ([1920] 1932). A general overview can be found in Papandreou (1994) and more recent presentations in Bohm (2018) and Laffont (2008).

20 The issue of externalities had initially been sidestepped in the Arrow-Debreu approach to general equilibrium theory. Debreu (1959, p. 49n2) had expressly assumed the absence of externalities and increasing returns, whereas Arrow ([1964] 1953) assumed the existence of a fictional international stock market on which market actors could buy and sell securities representing each future "state of the world" in the sense of each possible economic situation that might prevail in the future. Thus, there would be a "complete set of markets" (one market for each economic good and for each future state of the world) and externalities would therefore not exist. At about the same time, Samuelson (1958) highlighted what he believed to be the normative dimension of this issue. He argued that the Arrow-Debreu model could be "used as an optimal social computing device" (p. 333) *only in the absence of externalities*. Elaborating on Samuelson, Stiglitz (1972) and Greenwald and Stiglitz (1986) then argued that market failures are unavoidable in the presence of externalities, because externalities are tantamount to lacking markets.

21 Their hoarding also entailed *dis*advantages for still other market participants, in particular for those who have to pay off debt at fixed interest rates. This seems to imply that the same action (hoarding) may bring about both gratuitous good and gratuitous evil, sometimes even for the same person. However, as we shall argue in more detail, the disadvantages that we just mentioned cannot be classified as *gratuitous* evil.

22 Notice that this concerns the *monetary* return on capital. In real terms, this return increases if the increase in output is sufficiently strong, so that the purchasing power of each money unit increases to such a point as to overcompensate for the fall in the monetary return on capital.

23 More precisely, this relative decline occurs when the demand for capital is inelastic. See the more detailed discussion in Hülsmann (2010).

24 On Bastiat's contribution, see Hülsmann (2001, pp. 63–64). Among French economists, the emphasis on the gratuitous nature of certain benefits goes back at least to the physiocrats, who argued that all value is generated gratuitously by nature, whereas in human endeavors all value created comes at an equal cost. Bastiat relied most notably on Say (1861, pp. 69–70), who, in distinct contrast to Smith, and even more so than Ricardo, emphasized the importance of the gratuitous services of nature for the formation of the real revenues of market participants.

25 This idea was well understood by Ricardo, even though it was not central to his thought. He wrote: "M. Say accuses Dr. Smith of having overlooked the value which is given to commodities by natural agents, and by machinery, because he considered that the value of all things was derived from the labour of man; but it does not appear to me, that this charge is made out; for Adam Smith no where undervalues the services which these natural agents and machinery perform for us, but he very justly distinguishes the nature of the value which they add to

commodities—they are serviceable to us, by increasing the abundance of productions, by making men richer, by adding to value in use; but as they perform their work gratuitously, as nothing is paid for the use of air, of heat, and of water, the assistance which they afford us, adds nothing to value in exchange" (Ricardo [1817] 2004, pp. 286–87).

7

The Equivalence Postulate

Side-effect goods are an essential feature of all exchanges. Side-effect goods are fueled by economic growth. They are built into the DNA of a market economy, which can be understood as one great organism geared toward the spontaneous production of manifold gratuitous services.

Real-world markets therefore fulfill Pope Benedict XVI's postulate that "in *commercial relationships* the *principle of gratuitousness* and the logic of gift as an expression of fraternity can and must *find their place within normal economic activity*" (2009, sec. 36, emphasis added). Indeed, the spontaneous production of economic goods *is* a principle of the market economy. It *has* a place. Actually, it is so much entrenched in markets that it could not possibly be separated from them. It is there for everybody with eyes to see.

Then why was it overlooked? Why did so many economists fail to see it? After all, it was their job to study the side effects of market exchange. Why did so few of them follow in the footsteps of Bastiat? Why did they satisfy themselves with the meager theory of "positive external effects"—as a corollary of the equally pitiable theory of "pure and perfect competition"?

In what follows, we will focus on an important root of this failure. It is to be seen in *the fallacious conception according to which market exchange is, tends to be*, or *ideally should be an exchange of equivalent values*. If this equivalence postulate were correct, then, indeed, there would be no gratuitous goods to be received in ideal exchanges. It would also be difficult to see any advantage when competition, capital accumulation, and technological progress bring about goods without due compensation.

As we have stated before, the fallacious equivalence postulate goes back to Aristotle. The philosopher paved the way for Western thinking in virtually all fields of intellectual inquiry. The theory of exchange, too, was strongly influenced by his writings, most notably by the famous book five of the *Nicomachean Ethics*, where he deals with the virtue of justice. Let us

therefore now consider his argument in more detail and then retrace its influence on subsequent economic thought.

Aristotelian Origins

In Aristotle's conception, each virtue is a sound middle ground, or *meson*, between two opposing vices. For example, the virtue of generosity is the *meson* between profligacy and stinginess; the virtue of courage is the *meson* between recklessness and cowardice. This characteristic feature of all virtues is particularly pronounced in the case of justice, if justice is understood in a larger sense than abiding by the law. The reason is that a just or fair man strikes the sound middle ground in all of his actions. He is not merely just when he abstains from robbing other people. He is also just when he is *not* being stingy, cowardly, reckless, or extravagant. In short, he is just whenever he does not deviate from the narrow right path in all of his ventures. Justice in this larger sense is therefore "identical with complete virtue" (*Nicomachean Ethics*, bk. 5, chap. 2, sec. 7).

Now, while it is straightforward to tell what just conduct is in the context of all other virtues, it is much more difficult to do so in the case of justice itself. What are the two opposing vices relative to which justice would be the *meson*? Aristotle answers that this sound middle ground must be conceived of as a *quantitative equality* between different terms.[1] A just action is one that brings about such equality. This is the equivalence postulate, or equivalence criterion.

Aristotle argues that two cases need to be distinguished. In the first case, a "stock of good things" that hitherto had been held in common by the members of a community needs to be distributed among them. Here the just distribution is the one that respects a *proportional* equality of the members (see *Nicomachean Ethics*, bk. 5, chap. 3, secs. 5–17). The more important person should receive more than the less important one, so that the proportion between the importance of all persons be left the same as before. Aristotle uses the example of the distribution of dividends among the members of a joint-stock company: "When it is a common fund that has to be divided, the sums which the several participants take must bear the same ratio to one another as the sums they have put in" (bk. 5, chap. 4, sec. 2).

The second case is a market exchange. Here the relevant criterion is the equality of the value of the goods that are exchanged. The social standing of the partners to the exchange does not come into play. Let us quote this passage more fully:

> For it makes no difference whether a good man defrauds a bad one, or a bad man a good one, nor whether a man who commits an adultery be a good or a bad man; the law looks only to the difference created by the injury, treating the parties themselves as equal, and only asking whether the one has done, and the other suffered, injury or damage.
>
> That which is unjust, then, is here something unequal [or unfair] which the judge tries to make equal [or fair]. For even when one party is struck and the other strikes, or one kills and the other is killed, that which is suffered and that which is done may be said to be unequally or unfairly divided; the judge then tries to restore equality by the penalty or loss which he inflicts upon the offender, subtracting it from his gain.
>
> What is fair or equal, then, is a mean between more or too much and less or too little; but gain and loss are both more or too much and less or too little in opposite ways, i.e. gain is more or too much good and less or too little evil, and loss the opposite of this.
>
> And in the mean between them, as we found, lies that which is equal or fair, which we say is just. (ibid., bk. 5, chap. 4, sec. 3–6)

He concludes his argument as follows:

> But these terms, "loss" and "gain," are borrowed from voluntary exchange. For in voluntary exchange having more than your own is called gaining, and having less than you started with is called losing (in buying and selling, I mean, and in the other transactions in which the law allows free play); but when the result to each is neither more nor less but the very same amount with which he started, then they say that they have their own, and are neither losers nor gainers. That which is just, then, is a mean between a gain and a loss, which are both contrary to the intention, and consists in having after the transaction the equivalent of that which you had before it. (ibid., bk. 5, chap. 4, sec. 13)

To sum up, justice, whether in a distributive or in a market-exchange context, is always and everywhere a (quantitative) *equality* between different terms. This conception has a momentous consequence for the

interpretation of markets. It implies that market exchanges ideally should be zero sum. An exchange is just if the two goods that are exchanged have exactly the same value. Otherwise, one of the partners gains and the other loses; and the gain of the former is then exactly equal to the loss of the latter.2

Notice that Aristotle does not make the slightest effort to explain or demonstrate his contention. In his eyes, it seems to be obvious that the sound middle ground of justice itself is a quantitative equality between different terms and that a just exchange is therefore an exchange of equal values. In any case, he seems to take it for granted that his readers do not need an explanation of any sort.3 And indeed one may very well argue that the case is obvious with respect to gains and losses. What one person gains in excess of the just price is necessarily equal to the loss of his partner in trade. Say the just price of a haircut is three apples. Then if Mark exchanges two apples against a haircut from barber Joe, he unjustly gains one apple, and the value of his gain is exactly equal to Joe's loss; namely, one apple. But this sort of demonstration skips over the main difficulty. The problem is to know what the just price is. How do we know, how is it possible to know, that the just haircut price is three apples? As we shall see, Aristotle provides no answer.

The equivalence postulate is not as obvious as Aristotle claims. But then what are the roots of his conviction? Let us venture a hypothetical answer in light of the writings of Plato, which provided the foundation and context for Aristotle's philosophy. In his *Laws*, Plato had presented a blueprint for the good society.4 This blueprint was *static*—the good society was supposed to be permanent. In order to preserve the ideal society, it was therefore necessary to eliminate any kind of change. Now, market activity is a dynamic factor that might enrich some and impoverish others. It is likely to undermine the social and intellectual equilibria necessary to preserve the ideal state of affairs. Plato therefore considered that market activity should be reduced to an absolute minimum and that all exchanges with the outside world should be strictly controlled.

While Aristotle did not share Plato's totalitarian outlook, we may surmise that he nevertheless adopted the idea that market exchanges could be disruptive unless they were neutral in regard to economic power. The Aristotelian "just exchange" fulfills precisely this requirement. By all intents it is neutral with regard to the distribution of wealth.

This is not more than a hypothesis. The curious fact remains that Aristotle does not demonstrate his foundational equivalence postulate. In the *Nicomachean Ethics*, he simply proceeds to discuss his theory of justice

in more detail. He argues that it is "the rule of justice that holds society together." More precisely, justice is the foundation of *free* societies. "For the very existence of a state depends upon proportionate return. If men have suffered evil, they seek to return it; if not, if they cannot requite an injury, we count their condition slavish."[5] He also mentions that the members of society are held together by common needs: "The need for each other's services . . . holds the members of a society together; for if men had no needs, or no common needs, there would either be no exchange, or a different sort of exchange from that which we know" (*Nicomachean Ethics*, bk. 5, chap. 11; see also bk. 5, chap. 13). Thus, there are two social bonds: justice and needs. Needs are more general, since they also hold together societies that are not just, and therefore not free.

Aristotle then zooms in on the precise meaning of the aforesaid "terms" that should be brought to equality in a market exchange. In which sense should the goods that are exchanged be equivalent? Clearly, this cannot refer to their physical characteristics. When apples are exchanged for a haircut, it makes no sense to argue that the apples are in any sense "more" or "less" than the haircut. They have different physical dimensions. In order to establish whether there is equality or inequality between three apples and a haircut, it is necessary to appraise these goods in terms of a common measure. But this measure cannot be found in the things themselves. The apples and the haircut do not share any common physical feature that could be used as a meaningful measure.

Would it not be a solution to argue that apples and haircuts both satisfy human *needs*? Indeed, as we have seen, Aristotle argues that "the need for each other's services . . . holds the members of a society together" and that this need is a common measure of value for all things that are exchanged (ibid., bk. 5, chap. 11). But this solution fails, too, and it fails for the same reason that we encountered before. Needs are diverse. Haircuts and apples provide very different satisfactions that do not have much in common besides satisfying someone.

Hence, the problem of reducing diverse goods and diverse needs to a common measure remains. This standard cannot be found in the nature of the things to be exchanged. It cannot be found in human needs. According to Aristotle, it has to be specially created by an act of human ingenuity. Human beings invented and instituted *money* for the express purpose of reducing all goods to a common standard. In his words:

> All things or services, then, which are to be exchanged must be in some way reducible to a common measure. For this purpose

> money was invented, and serves as a medium of exchange; for by it we can measure everything, and so can measure the superiority and inferiority of different kinds of work—the number of shoes, for instance, that is equivalent to a house or to a certain quantity of food. (ibid., bk. 5, chap. 10)

He goes on:

> Money has been introduced by convention as a kind of substitute for need or demand; and this is why we call it νόμισμα, because its value is derived, not from nature, but from law (νόμος), and can be altered or abolished at will. (ibid., bk. 5, chap. 11)

Aristotle is fully aware that this solution is not perfect. He highlights two problems.

The first one is that the value of money is not constant. It fluctuates in the course of time. It is different from one place to another. It is merely *more* constant "than the value of anything else" (ibid., bk. 5, chap. 5, sec. 14). This seems to be just a little practical nuisance, but in truth it is a big problem from the point of view of Aristotle's conception of a free society. How can there be justice, in his conception, with a vacillating measuring rod?

The second problem is even more momentous. Aristotle admits that money is not a common measure at all. He writes: "In strictness, indeed, it is impossible to find any common measure for things so extremely diverse; but our needs give a standard which is sufficiently accurate for practical purposes" (*Nicomachean Ethics*, bk. 5, chap. 5, sec. 14). Crucially, there is no common measure for the things that are exchanged. The same problem that plagues the comparison between apples and haircuts also upsets the comparison between apples and *money*, as well as between money and haircuts. And it also spoils the comparison between apple and haircut *prices*. It makes no sense to assert that three dollars are—more or less—equal to seven apples. It is no less meaningless to state that the apple price is—more or less— equal to the price of haircuts. There simply is no common denominator. The money price of apples is dollars per kilo of apples, whereas the money price of haircuts is dollars per haircut. *These dimensions are different and the two prices therefore incomparable* (see Hülsmann 1996, 1999). Using them—or "needs"—to measure the value of haircuts or apples in terms of a common unit is *not* a rule of thumb or a "standard which is

sufficiently accurate for practical purposes." *Contra* Aristotle, such a rule of thumb is a logical impossibility. It is nonsense.

Then why do standard textbooks, even today, represent money as a standard of value? This has to do with the long shadow of Aristotle, about which we shall have to say a few words below. Here we merely need to stress the fallaciousness of Aristotle's conception of the *meson* of justice. The equivalence postulate cannot be this *meson*. It leads to absurd results, as Aristotle himself coyly admitted.

Money and monetary exchange prices are of the utmost practical importance. But this is not so because money prices measure the values of other goods. Rather, it is because the *money flows* that result from exchange allow for a comparison of costs and revenues, which in turn allows for a *comparison of alternative courses of action*. While different activities do not have a physical common denominator, they become comparable in terms of *monetary revenue* and *monetary costs*. For example, by knowing, or rather appraising, the money prices of all the equipment and labor that I might need to start a barber shop, and by appraising the monetary revenue that such a shop might generate, I am in a position to assess whether this activity will generate a net revenue for me. Similarly, I might calculate the expected return on the investment in the barber shop and compare this percentage to the expected returns of other investment alternatives.

Calculations of this sort are the most precious devices to orient human action. They are essential tools of entrepreneurial decision-making within the market economy, as Ludwig von Mises ([1949] 1998], pt. 3) has brilliantly argued in his *magnum opus*. None of these intellectual operations are concerned with measuring the monetary value of nonmonetary goods, but with comparing monetary costs and monetary revenues springing from human action. Estimating whether a barber shop will generate net revenue, or whether it will generate more or less revenue than alternative investments, is not the same thing as assessing "the value" of razor blades and haircuts.6

Toward a New Meson

The foregoing remarks do not purport to refute Aristotle's theory of justice in general. We do not take issue with the definition of virtue as a sound middle ground, a *meson*, between opposing vices. We do not contest that the virtue of justice is the foundation of a free society. Quite to the contrary, we fully subscribe to these notions.

Our critical remarks solely concern Aristotle's conception of "justice

itself " as a numerical equality between different terms. We have seen that this conception is wrong and has to be rejected. However, this does *not* mean that there is no such thing as justice itself, and neither does it mean that justice itself is not a sound middle ground, a *meson*, between opposite excesses. The error is to see the *meson* in the equivalence of the traded goods. But the *meson* could be something else. An alternative candidate that might serve as an Aristotelian *meson* is Rothbard's nonaggression principle.

This principle is the foundation of Rothbard's ([1982] 1998, chap. 8) theory of justice. The principle says that property rights can be legitimately acquired only when the acquisition activities do not involve violating ("aggressing" or "invading") the legitimate property rights of other persons.[7] For example, he who homesteads a virgin piece of nature is not invading the rights of other. He therefore becomes the legitimate owner of that piece of nature which he transforms through his labor. Similarly, gifts and exchanges do not *per se* invade the rights of others. Therefore, the goods that are acquired through gifts and exchanges become one's legitimate property.

The nonaggression principle provides a coherent *meson*. It is rooted in the theory of property, not in the theory of value. Acquiring property rights under the principle of noninvasion is a *meson* between too much and too little. He who acquires property only through homesteading, gifts, and exchanges walks on the narrow middle ground of justice itself. He who acquires property through violence or fraud obtains too much, and thereby deprives other persons of their due. Hence, we see that property rights provide a solid starting point to reflect on market exchange and justice. This is a starting point that has served jurists well at least since Roman times.[8] It is also the starting point for the modern economic theory of the market. Exchange is not about shuffling objects through space from left to right. It is about acquiring and ceding property rights.

The nonaggression principle elegantly sidesteps the fatal problems of the Aristotelian conception of the *meson* of justice. As we have seen, Aristotle's error was to look for the *meson* in the theory of value, rather than in the theory of property. He compounded this error by inventing a flawed theory of value, the equivalence postulate, which vitiated his theories of exchange and of justice.

To the present day, this wrong approach spoils normative propositions in law, welfare economics, and similar fields. The fallacious equivalence postulate leads to the idea that property rights should be arranged in such a way as to respect the equivalence criterion in distributive and commutative

justice. In other words, property rights appear to be a dependent variable, whereas subjective value (utility, ophelimity) and market prices are portrayed as independent ones. But this turns reality on its head. Both subjective value and market prices *presuppose* a framework of property rights and appropriation rules. It is impossible to invert this logical dependence. Property rights *cannot be derived* from the subjective values of economic goods or from the market prices of such goods. Any attempt of this sort involves an inescapable contradiction. It is one of the great tragedies of twentieth-century economic thought that many of its most illustrious representatives have fallen prey to this fallacy.[9]

Aristotle's Long Shadow

Mises once lamented that one of the great philosophers of his time, Henri Bergson, did not understand the most basic element of modern value theory. Mises ([1949] 1998, p. 33, footnote 2) wrote: "Hardly any philosopher had a more universal familiarity with various branches of contemporary knowledge than Bergson. Yet a casual remark in his last great book clearly proves that Bergson was completely ignorant of the fundamental theorem of the modern theory of value and exchange." In *The Two Sources of Morals and Religion*, Bergson ([1932] 1935, pp. 54–55) had stated that "however rudimentary a community may be, it barters, and it cannot barter without first finding out if the objects exchanged are really equal in value, that is to say, both exchangeable for a definite third object."

As we have seen, Bergson's shortcoming goes way back to Aristotle and Plato. Very probably, it is even older, but with Aristotle's backing, the equivalence postulate has spread into modern times. It has cast a long shadow on social philosophy and economics and, by implication, on the analysis of gratuitousness within the market economy. Indeed, if Aristotle's conception of "justice itself " were correct, then by definition there would be no gratuitous element in just market exchanges. A just exchange would be an exchange of equivalent values. Each trading partner would receive the exact same value that he pays. There would be no gain and no loss, no gratuitous benefit and no gratuitous harm. Gratuitousness would vanish from the intellectual radar screen.

In what follows, we will trace some of the Aristotelian influence on the theory of exchange. As we shall see, the Aristotelian equivalence postulate is alive and thriving, even in present-day economics, which in many other respects has repudiated Aristotle's conceptions root and branch.

Saint Thomas Aquinas and the Scholastics

Nobody has done more to popularize Aristotle's thought in the Western world than Aquinas. This holds true in particular for the Aristotelian conception of justice and exchange. Aquinas turned this conception into a comprehensive theory of just prices and just revenues. He applied the notion that the equivalence criterion is the just middle ground in any exchange to the case of fraud, where such equivalence does not hold, and thereby argued that fraud is unjust (Aquinas 1948, II-II, q. 61, art. 2). Similarly, in money lending at interest, Aquinas argued that there is no equivalence between the sum initially lent and the payments made by the borrower. The borrower does not just reimburse the principal, but also pays interest, ostensibly for using the principal (which is why interest is also called "usury"). Since payment of the usury destroys the equivalence of the lending operation, usury is unjust.

But the equivalence criterion, or equivalence postulate, has even broader implications. In its light, *any* commercial activity appears to be problematic from a moral point of view (Aquinas 1948, II-II, q. 77). Selling a good for a higher price than it was bought for is wrong *per se*. It can only be justified by extenuating circumstances—that is, by conditions *extrinsic* to the trade itself. For example, trading involves human services (transport, packaging, informational services, etc.) whose costs need to be compensated for. Similarly, interest revenues gained by lending money are wrong *as such*, since the creditor eventually receives more than he has lent. Yet the money lender may legitimately be compensated for accepting the risks (*periculum sortis*) and the opportunity costs (*damnum emergens*) that come with lending.[10]

This way of arguing has remained central to Western economic thought. In its pure form it has been well preserved into the present day, most notably in the writings of various Catholic economists. In the early twentieth century, Heinrich Pesch updated the equivalence postulate and applied it to entrepreneurial revenues. He argued that while it was intrinsically unjust to sell products at prices above their production costs, such practices may be warranted in the light of extrinsic circumstances such as entrepreneurial labor and responsibility for losses. Just like Aristotle and Saint Thomas, Pesch (1923, p. 721) insisted on the equivalence criterion. In his conception, as in theirs, there is no trace of gratuitousness in a just exchange. What you get is what you paid for.

In our day, Stefano Zamagni (2005; 2010, p. 84), the president of the Pontifical Academy of Social Sciences, follows in Aristotle's footsteps. It is therefore not surprising that both Pope Benedict XVI and Pope Francis

have made the equivalence postulate the central element of their interpretation of markets.

But the Aristotelian-Scholastic conception also influenced economists outside of the Catholic intellectual orbit, some of whom rejected Scholasticism outright. This concerns most notably the classical economists and Marx.[11]

Classical and Marxist Economics

Writing more than a century before Pesch, Smith developed a price theory that can be interpreted as a vindication of the equivalence criterion. According to the opening sentence of *The Wealth of Nations*, all commodities originate from labor, and labor is there-fore "the real measure of the exchangeable value of all commodities" (Smith [1776] 1994, p. 33).[12] Elaborating on this idea, Ricardo then went on to claim that the value of reproducible commodities is *wholly* determined by the amount of labor that was—directly or indirectly—employed in the production process.[13] This leads, again, to the conclusion that there is no gratuitous element in ordinary market exchange. All commodities "naturally" trade at prices that correspond to their cost of production.

Marx's position is somewhat different. Like Ricardo, he considers that the value of a commodity is *exclusively* determined by the amount of labor time that under given social conditions is necessary to produce it (see Marx 1867, p. 5). And he was perfectly aware that this conception is a variant of the Aristotelian equivalence criterion. In a just exchange, there could not be any gratuitous element. Nevertheless, he acknowledged two forms of gratuitous human services.

The first one is an unintentional service of value preservation. Marx (1867, pp. 173–75, 595) argues that when a worker transforms a means of production into a product, then the value of that means is preserved in the product. For example, when a cotton spinner spends a day transforming raw cotton into cotton yarn, the total value of the yarn becomes equal to the sum of the values of the labor and of the raw cotton. As a consequence, the exchange value of the yarn (its market price) is equal to the sum of the prices of raw cotton and labor. According to Marx, the "soul hike" (p. 173) of the exchange value from a means of production to its product is *unintended*. It is a gift of nature (*Naturgabe*) or a free gift (*Gratisgabe*) "which does not involve any cost for the worker, but which yields a lot to the capitalist, namely, the preservation of the existing capital value" (p. 173).

Secondly, Marx argues that under capitalism, workers constantly

provide gratuitous services to their employers because they are cheated out of the full compensation for their services. This is Marx's famous exploitation thesis, the central piece of his economic thought. He contends that entrepreneurial profits by their very nature result from exploitative labor relations. Since the value of commodities springs—directly or indirectly—*only* from labor, the workers should receive the exact equivalent of the exchange value of their products. But in a profit economy they receive less than this amount. To realize a profit *means* to sell commodities at a higher exchange value than the combined exchange values of the factors of production that brought them into being (Marx 1867, p. 112). It means not paying the laborers the full exchange value of their services. In short, under capitalism, exchange is not just. The capitalists enrich themselves at the expense of the workers. The latter have to work gratuitously some of the time, whether they like it or not (pp. 184, 198ff.). In other words, the only gratuitousness that can be found in capitalist exchange is the abusive gratuitousness obtained by some at the expense of others.[14]

Neoclassical Economics

The equivalence criterion also echoes through various elements of the neoclassical price theory that goes back to Jevons, Walras, Marshall, and Knight. It is manifest in the microeconomic model of perfect competition, which revolves around the idea that in market equilibrium, the price of any product is equal to both its average and its marginal costs of production. Each firm receives (from its customers) exactly the same amount of money that it pays (to its employees and suppliers). Similarly, in the Walrasian macroeconomic model of pure and perfect competition, each market participant pays the auctioneer—a.k.a. Mr. Market—the exact amount that he receives from him. And all payments received are the exact equivalent of all goods provided. No production of any good remains uncompensated.

Classical price theory derives commodities prices from costs of production (amounts of labor), whereas the marginalist approach derives them from consumer choices. But both approaches hold that, in equilibrium, market prices are equal to costs. Moreover, as in the case of Scholastic reasoning and as in Marx, this equivalence does not just have a descriptive bearing, but also a normative one. Marx claimed that profit making (a deviation from the equivalence norm) amounted to exploiting the laborers. Walras, Pareto, and Knight asserted that the market equilibrium that would result if all agents were endowed with perfect knowledge and perfect foresight was some sort of ideal state, a situation of

maximal consumer satisfaction. From their point of view, it appeared to be desirable that the market resemble a perfect market, that it reach equilibrium, most notably because in equilibrium all good deeds are compensated by equivalent payments. In marginalist thought as in Scholastic thought, then, the exchange of equivalents serves as a normative benchmark. Ideally, all economic goods that are not gifts *should* be duly compensated. There *should* be markets for all of them (this is the postulate of complete markets). Ideally, everyone *should* pay the equivalent of what he receives, unless he receives a gift. In the economics jargon fashionable today, this is ideal is called "the first fundamental theorem of welfare economics."[15]

Now, most economic goods are provided or received above or below cost most of the time. But this was not a fatal problem for the pioneers of the neoclassical approach as long as the deviation of product prices from product cost was just temporary. Profits and losses oscillated around the long-run equivalences of costs and revenues. They were not problematic. They were just frictions that would wane in time.

Things are very different in the case of the value effects, wealth effects, and other positive externalities of exchange. These are *permanent* elements of a market economy, a fact that did not escape the attention of the champions of the neoclassical approach How did they incorporate these ostensibly gratuitous benefits into their theory without abandoning the idea that all services should be remunerated unless they are gifts? In two ways. On the one hand, they obfuscated the gratuitous nature of these benefits with technical jargon like "consumer surplus," "income effect," and similar expressions. On the other hand, they acknowledged such deviations from the norm of complete markets as a matter of fact, but then proceeded to recommend that the government intervene to rectify them—to internalize the externalities. The best known case in point is the technological externalities of the market process, which we highlighted in the previous chapter and which we will discuss in more detail below. The pervasiveness of such externalities seems to imply that some services remain permanently without pay and some damage without compensation. Positive externalities are therefore not mere accidental imperfections. They are market failures.

More than any other element of modern economic thought, this conception has blinded economists to one of the greatest benefits of the market process. Rather than appreciating the fact that market exchanges generate numerous and significant unpaid benefits, both for the exchanging partners and for third parties, economists have denigrated this feature, and they have even sought to "rectify" it with the coercive powers of the state.

External effects did not play a significant role in classical economics. They were furtively considered by Mill (1848) and then formally introduced into economic science by Sidgwick (1883, pp. 412ff.) and Marshall. The latter distinguished between external and internal "economies." The standard conception of our own day was developed in the interwar period. Pigou asserted, in much more detail than Sidgwick, that market externalities should be rectified by government interventions (see Marshall [1890] 1920, bk. 4, chap. 9, sec. 7, and passim; Pigou [1920] 1932, pt. 2, chaps. 9–11). This line of argument would be further developed in the first three decades after World War II. It has since become a staple in economics classes dealing with microeconomics and public policy.[16] We will therefore deal with this important theory in more detail below.

The Austrian School

The adjective "neoclassical" is often used to describe all schools of thought that propelled the marginalist revolution of the 1870s, even though it was used initially only to refer to Marshall's theories. In any case, as far as the equivalence criterion is concerned, we have to exempt Menger and the Austrian School.

Within the Austrian School, we find a mixed picture. On the one hand, important figures such Böhm-Bawerk and Wieser make various concessions to the equivalence postulate. Röpke ([1937] 1963, pp. 21, 236–37), too, believed it was a foundational element of economics, calling it the "business principle." But on the other hand, in the conceptions of Menger and Mises, the equivalence postulate plays virtually no role. Under their influence, the standard Austrian approach was not focused on market equilibrium, and neither did the Austrians elaborate any fictitious models of perfect markets. It is true that they, too, held that costs tended to equal product prices in final equilibrium—that is, at the end of a long, winding process of adjustments. But most of them did not consider this end result of the competitive process to be an ideal or a suitable objective for public policy.[17] They were primarily interested in the process itself, not in its final state. They understood that "the market" is the process rather than the equilibrium toward which it tends. From the Austrian perspective, it was therefore possible to think of gratuitous goods as part and parcel of the market.[18] Most notably, Mises ([1949] 1998, pp. 654–56) and his present-day followers do not consider positive externalities to be market failures (see Block 1983; Cordato [1992] 2007). They are part and parcel of the ordinary operation of the market economy. They do not need to be rectified.

Positive Externalities as Market Failures

The Aristotelian equivalence postulate has prevented a proper understanding of the pervasive presence of gratuitous goods within a market economy. On the preceding pages, we have seen to what extent it has infused economic thought from antiquity to the present day. In what follows, we will take a closer look at one of its offshoots, the theory of positive externalities, which plays an important role in contemporary economic thought.

Most economists ignore the Aristotelian lineage of the theory of positive external effects. They ignore that this theory is built on the *postulate* that all goods resulting from human action should be paid for unless they are intended as gifts. Students are given the impression that the theory describes the real world as it is, whereas in fact it explains how the world appears to be deficient, and how its short-comings could be mended, in light of the Aristotelian postulate on which the theory is built. The consequence is an abysmal underappreciation of the role gratuitous goods play within the human economy and of the stupendous fact that for-profit activities are powerful vehicles for the generation of gratuitous benefits. It is therefore necessary to take a closer and critical look at this theory. It may be stated as follows.

When a person A does not pay for the benefits that he receives from the activities of *B*, and if *B* does not wish to donate these benefits to *A*, then *A* "free rides" on the work of *B*. This is not just a private problem concerning parasites like *A* and their victims. It is also a social problem because the victims, who are not fully paid as they should be, do not—in fact, cannot—produce quite as much as they would if they were paid properly. In other words, free riding goes hand in hand with underproduction. Gratuitous benefits are not a charming and potentially salutary aspect of the market economy. They are the symptom of malfunctioning markets, of market failures.

Fortunately, there is a remedy. It is true that private citizens are more often than not unable to provide relief, but the government has the wherewithal to step in and do the job. It can tax the beneficiaries and subsidize the producers, or produce the good.

We have taken some liberty in choosing our vocabulary to make the argument vivid and clear. But except for the word "parasite," we have remained very faithful to the typical textbook presentation of the theory of positive externalities. And speaking of parasites merely served to emphasize the value judgment that underlies the entire theory and is also echoed in

the expression "free riding." This value judgment posits that all goods that are not gifts *should* be paid for. We have seen that this postulate has a distinguished intellectual history, running from Aristotle to modern times. But it is a *postulate*, rooted not in fact, but in wishful thinking.

Positive Externalities in Free Markets

What is wrong with the contention that external benefits are to be considered as market failures? To answer this question, we must first think unreservedly about how market participants deal with external benefits in the absence of any state intervention.

In a free society, all economic goods are produced by voluntary decisions. The choices of the producers depend on the proceeds that they can expect from sales. Higher proceeds facilitate a larger production volume. Moreover, there is a tendency for all profit-oriented activities to align on the same return on investment. If higher profits can be earned by producing honey than by producing computer screens, then monetary capital will be withdrawn from screen production and more monetary capital will be invested in the fabrication of honey. Through such arbitrage processes the return on capital in both lines of activity will tend to equalize.

Now, honey production would be increased even further if beekeepers were not only paid by honey consumers, but also by apple farmers who benefit from the bees' pollination. Ordinarily, apple farmers do not pay for this benefit. They "free ride" on the work of the beekeepers. If they somehow had to pay for the services of beekeepers, then the revenue of the beekeepers would increase, along with the costs of the apple farmers. The production of honey would expand, and the production of apples would be curtailed. But, again, this typically does not happen. The apple farmers know that they will obtain the bees' services even without payment, and therefore they do not pay.

There are only two ways out of this impasse, if an impasse it is. There is the political way and there is the voluntary way. The beekeepers may call on the government to tax the apple farmers and hand the tax money over to the beekeepers. This is the political solution. The power of the state would then "internalize" the positive externality—that is, transform it into a payment. It would become revenue for some and production cost for others. While this political solution is interesting in its own right and merits careful examination, it does not concern the basic question of whether external benefits *are* in fact market failures. We will therefore leave this topic aside for the moment and revert back to it in part three.

Let us rather consider the voluntary way. Suppose someone develops a

technology that allows the beekeepers to steer the flight of their bees to a specific field. In this case, they could make the apple farmers pay, and the latter would pay voluntarily, because this would be the only way to obtain the needed bees' services. Today, such a technology does not exist. Neither does there seem to be any other economically viable way to make the apple farmers pay. The emphasis here is on *economically viable*,19 for there are already *technically viable* ways to restrict the pollination services of the bees. For example, the beekeepers might contain their bees with extensive netting over the surrounding acreage. Why does no beekeeper do this? Because it is not economically viable. No beekeeper thinks that the extra revenue that he could expect to obtain from the apple farmers or other beneficiaries would justify the extra cost of this bee-containment technique.

It appears that this is also the reason why there are very often no attempts to restrict the external benefits of technological progress. It is simply not worth the while. And the same reason again is at stake in all other cases that we have discussed in the previous chapter. There is nothing wrong with trying to privatize the external benefits of money hoarding or of capital accumulation. In the next chapter we will examine the possibilities and limits of such privatization in more detail. But one thing is clear. In all cases, the prospects of privatizing external benefits depend on the associated costs and revenues.

To sum up, in the context of purely voluntary social relations, there are perfectly intelligible and good reasons why certain benefits come and remain free. There simply is, under present conditions, no economical way to make the beneficiaries pay for them. But then it seems to be wrong to portray external benefits as market failures. If the apple farmers believe that there are not enough bees around, they are free to pay the beekeepers to do a better job, or to start their own beehives. If the beekeepers think that they do not earn enough from selling honey, they are free to look for something else to do. Either way, there is no market failure.

The Coasian Approach to Externalities

Ronald Coase (1960) has come up with a variant of the market-failure argument that we should briefly consider. Coase focuses on external *costs* rather than on external benefits, but his argument can be extended to the latter as well. He concedes that while external costs such as air pollution can be internalized into market exchanges in many cases, there are other cases in which this is not economically possible because of *transaction costs*. In these cases, the government should intervene as the least costly solution. It should tax the polluters and thereby make the pollution economically

unviable.

Now, adapting this argument to the case of external benefits, it may be contended that the government should intervene if the presence of transaction costs prevents external benefits from being made payable.

The problem with this approach lies in the foundational concept of transaction costs. Coase uses this term to designate all human activities which would *not* exist in an ideal world of perfect foresight and competition. Holding cash on hand, inspecting a factory, verifying that payments have arrived in bank accounts—all such activities are costly in the sense that they would not occur if human beings were endowed with perfect knowledge and foreknowledge. Hence, if some external benefit cannot be made payable because of the presence of such transaction costs, then in Coase's mind this is an inefficient outcome that could and should be rectified by government interventions.

Clearly, this way of thinking is out of tune with world in which we live. As the present author stated a few years back: "The costs of real-world behavior are the values of . . . real alternatives. But transaction costs as Coase understands them can only be defined in terms of 'alternatives' that have never been open to human beings and which never will. To be a human being means to act under uncertainty. This fact permeates all aspects of human behavior. It is there-fore meaningless to hold up perfect foresight as a standard in terms of which real-world human action appears to be costly" (Hülsmann 2004, p. 4; see pp. 46–50, and also North 1992, for a detailed discussion and critique of Coase's transaction-cost concept).

The General-Equilibrium Perspective on Positive Externalities

There seems to be another, very simple and very straightforward, way to criticize the theory of external benefits. One might point out that *from an overall point of view*, free riding does not entail underproduction. It is a sectoral problem, not an overall problem.

Honey production might very well remain relatively small scale because apple farmers and others do not pay for the pollination services of bees. But this makes resources available for *other* activities. All the human labor that could be used to make more honey is now available for other sectors of the economy. It can be used to make more bags, skateboards, machines, tools, and other things. And similarly, all the raw materials and nonspecific intermediate goods that could be used to make more honey—but are not under current circumstances—are now available to be used in other lines of business.

In short, if external benefits are problematic at all, then they are

problematic only for *some* people—in our example, for honey producers and honey consumers—but these disadvantages necessarily go hand in hand with advantages for other people. In the worst of all cases, external benefits are a sectoral problem, not an aggregate one. If the government steps in to internalize them via taxation and subsidies, then, at best, it merely redistributes wealth within society and rechannels productive activities. It does not mend an underproduction problem because there is no such problem from an overall point of view to begin with.

This brings us to the Walrasian or Arrow-Debreu general-equilibrium perspective on external benefits. Indeed, the standard response to the argument that we have just presented goes as follows: It is true that external benefits entail *sectoral* advantages and disadvantages. But it is not true that they make no difference from an *overall* point of view. Indeed, to stay in our example, honey is now *under*produced, whereas other goods are *over*produced. There is *not enough* honey, while there are *too many* other goods. In comparison to what? In comparison to the general-equilibrium world *à la* Walras. This is a world in which all agents choose with perfect foresight and in which all benefits are paid for. Relative to this ideal benchmark, external benefits make the real world inefficient from an overall point of view. Resources are wasted and society is impoverished.

Now, this macroeconomic version of the theory of external benefits is just as untenable as its microeconomic cousin. Five main points merit our attention.

First, as we have seen in discussing Coase's argument, the fictitious image of a world inhabited by agents with perfect foresight is an unsuitable benchmark for real-world human action. No man, no society, could possibly attain perfect foresight.

It follows, secondly, that even if this fictitious benchmark is accepted for the sake of argument, it entails a paramount problem of a very practical sort. There is simply no way to determine what a perfect-foresight world would look like, other than with a system of purely formal, fictitious, and tautological equations *à la* Walras. As a consequence, it is similarly impossible to assess any quantitative deviations from this ideal. In the present case, how could the external gains of the apple farmers and the opportunity loss of the beekeepers be quantified?

It is impossible to measure and compare the *subjective values*, or the personal utilities, associated with these gains and losses, for these subjective values do not have a quantitative dimension. They are ordinal—they have dimensions such as more important / less important or more urgent / less urgent. What is more, as we saw at the beginning of this chapter, this

ordinal dimension is *idiosyncratic*. It depends on the context in which decision-making takes place.

Similarly, it would be impossible to compare the *monetary* gains and losses within a general-equilibrium framework. On the one hand, this criterion is perfectly arbitrary—why should *monetary income* be the decisive criterion rather than, say, calorie consumption, consumer longevity, or CO_2 emissions? On the other hand, while the monetary externalities of the real world (the world without perfect foresight) might conceivably be estimated, though within certain margins of error, no reasonable estimate of any sort would be possible for a hypothetical perfect-foresight world. The apple farmer could estimate the monetary value of additional pollination services. The beekeeper could estimate the monetary cost of additional hives. The reason is that they only have to assess *one* variable while supposing that all other variables will not change. But the issue is to estimate the monetary gains and losses relative to a perfect-foresight world. In such a world, *all* variables would be different because all variables are interdependent. They would therefore all have to be estimated at the same time.

Now, economists might contend that it is necessary to have some conception of general equilibrium. This is true, and it brings us to our third point. There is no necessity to resort to the fallacious neoclassical conception of general equilibrium based on the fictitious assumption that all agents enjoy perfect knowledge and perfect foresight. As we have shown in Hülsmann (2000), it is possible to derive realistic general-equilibrium analysis from the basic dichotomy of success and error. The binary pair of success and error is a universal feature of all human actions. A general-equilibrium analysis that is derived from it does not involve any stipulations about the knowledge or foresight of the agents. And it does not imply that all goods that are not gifts are or should be paid for. In the framework of this conception, external benefits are neither frictions nor failures. They are natural elements of the market process.

This leads us to point four. As we have seen, the perfect-foresight framework is needed to make sense of the assertion that external benefits are market failures. But this assertion relies even more fundamentally on the normative premise that all people who provide goods to others without intending to make a gift should be paid. But *why* should all such benefits be paid for? Why should the gains of apple farmers and the losses of beekeepers be balanced? If Mary takes a shower in the morning, all people around her will benefit. Does this mean she should be paid for taking showers?

Fifth, the portrayal of external benefits as market failures is completely absurd when we turn to the case of the virtues. Clearly, virtuous behavior more often than not entails material benefits for others. But such behavior cannot be compensated *by definition*. If you get paid for telling the truth, then it is no longer virtuous for you to tell the truth. It is therefore a logical impossibility to remunerate virtues. And if it is not possible in the case of such vitally important goods—if, on the contrary, there are positive externalities that *should* remain unpaid—then the entire idea that positive externalities are *per se* market failures collapses lock, stock, and barrel.

To sum up, the neoclassical theory of positive externalities is an outgrowth of the Aristotelian conception of a just exchange. It posits that all goods that are received, unless they are received as gifts, should be paid for—that there is no justice unless a benefit received is compensated. The "inefficiency" resulting from positive external effects appears only by reference to this postulate. But this normative premise is arbitrary, as we have argued at length. Positive externalities and various other unintended benefits are omnipresent in markets. Yet they are not failures—not of markets, nor of anything or anyone. They are goods that are voluntarily provided and gratuitously received. They are important and beneficial elements of a free economy.

1"The unjust man, we say, is unfair, and that which is unjust is unfair. Now, it is plain that there must be a mean which lies between what is unfair on this side and on that. And this is that which is fair or equal; for any act that admits of a too much and a too little admits also of that which is fair. If then that which is unjust be unfair, that which is just will be fair, which indeed is admitted by all without further proof. But since that which is fair or equal is a mean between two extremes, it follows that what is just will be a mean. But equality or fairness implies two terms at least. It follows, then, that which is just is both a mean quantity and also a fair amount relatively to something else and to certain persons —in other words, that, on the one hand, as a mean quantity it implies certain other quantities, i.e. a more and a less; and, on the other hand, as an equal or fair amount it involves two quantities, and as a just amount it involves certain persons" (ibid., bk. 5, chap. 3, secs. 1–45).

2Bruni and Zamagni ([2004] 2007, pp. 42–43) argue that the equivalence postulate must be interpreted as being *qualitative* rather than quantitative. In their eyes, it generally connotes reciprocity, and only in the case of market exchange does it imply a strict quantitative equality.

3Let us quote him again: "If then that which is unjust be unfair [unequal], that which is just will be fair [equal], *which indeed is admitted by all without further*

proof" (*Nicomachean Ethics*, bk. 5, chap. 3, sec. 3; emphasis added).

4Plato presents a theoretical study of justice most notably in the *Republic* (*Politeia*). For a recent in-depth discussion of Plato's conception of justice starting with the dialogue between Socrates and Thrasymachus in the *Republic*, see Batthyany (2021).

5*Nicomachean Ethics*, bk. 5, chap. 6. He goes on: "And again, if men have received good, they seek to repay it: for otherwise there is no exchange of services; but it is by this exchange that we are bound together in society" (ibid.). And then further: "This is the reason why we set up a temple of the graces [charities, χάριτες] in sight of all men, to remind them to repay that which they receive; for this is the special characteristic of charity or grace. We ought to return the good offices of those who have been gracious to us, and then again to take the lead in good offices towards them" (bk. 5, chap. 7).

6Fundamentally, the whole idea of measuring the value of goods is ill conceived. The value of an economic good is not a substance or an extended quality of that good, but an *idiosyncratic preference relation*. For a good to have value means that it is more (or less) important than some other good, at some point in time and at some place, for some human being. In other words, the value of a good is a relation in which it stands by virtue of the fact that it is subject to human choice, in an ever-changing context. See Hülsmann (2003).

7On p. 200, we highlighted that the late Scholastic Luis de Molina ([1597] 1981), argued that exchange was just if property rights were respected. This is essentially the same line of argument that we find in Rothbard's nonaggression theorem. The historical origin of this argument merits more detailed investigation.

8See Hoppe (2021, pp. 19–21) on what he calls the classical tradition of interpreting the social and political significance of private-property rights.

9For a full discussion of this fallacy, see Hoppe ([1987] 2005, chap. 2; [1993] 2006, chap. 12). For a critique of Ronald Coase's approach to law and economics, which is squarely built on this fallacy, see Hülsmann (2004).

10For a discussion and critique of the Aristotelian-Scholastic theory of usury, see Hülsmann (2017).

11We glance over this important subject very rapidly. For a fuller discussion, see Rothbard (1995, vol. 1, chap. 16) and Dooley (2005, chaps. 8–10). Dooley underscores that historical labor-value theories variously considered human labor to be the *origin* of commodities' values, the *measure* of their values, and the factor determining their relative values (*regulation* of value).

12"The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it" (Smith [1776] 1994, p. 30). "The real value of all the different component parts of price, it must be observed, is measured by the quantity of labour which they can, each of them, purchase or command. Labour measures the value not only of that part of price which

resolves itself into labour, but of that which resolves itself into rent, and of that which resolves itself into profit" (p. 52).

13"Possessing utility, commodities derive their exchangeable value from two sources: from their scarcity, and from the quantity of labour required to obtain them" (Ricardo [1817] 2004, p. 12). Notice that this contention only concerned *reproducible* commodities, not rare books, unique paintings, and similar goods.

14See Böhm-Bawerk (1896), Mises ([1922] 1981), and Reisman (1996) for a full discussion and critique of Marxist economics.

15The same point of view is apparent in the writings of the advocates of social enterprise, who uphold nonprofit ventures—that is, the equality of revenue and costs—as an ethical ideal.

16See Bator (1957, 1958); Baumol (1965); Buchanan (1969); Arrow (1969); Laffont (1977, 2008); and more recently Berta (2017). Overview in Papandreou (1994).

17The main exceptions were the "verbal Walrasians," Friedrich von Wieser and Joseph Schumpeter. The latter is usually not counted as a member of the Austrian School at all. See Salerno (2002) and Hülsmann (2007, pp. 469–74).

18One might argue that the Austrian approach to rent had occasional elements of retrogression in comparison to Marshall's conception. For Marshall, rent denoted the gratuitous revenue resulting from the ownership of natural resources. By contrast, the Austrian authors Frank Fetter and Rothbard redefined the concept in such a way that it covered *all* revenues.

19In the standard literature on positive external effects, to which we have referred above, this problem is typically neglected (an exception is Mises 1949, pp. 650–59). The general assumption is that some goods are by their very nature excludable, whereas others are by their very nature non-excludable. But this assumption is wrong. *Technically*, it is very often possible to exclude potential beneficiaries in order to concentrate all of a good's benefits on a select group of effective beneficiaries and to make the latter pay. However, *economically* such exclusion is not always viable.

8

Natural Limits to Gratuitous Goods

Gratuitous goods are voluntarily provided and received. They are part and parcel of a social order based on private-property rights. But how solid is this connection? Are gratuitous goods truly enshrined in the very DNA of a free society or is this association fragile? Are there forces at work that tend to diminish or destroy gratuitous goods under capitalism? What are the conditions under which gratuitous goods would decline, and possibly disappear altogether?

In what follows, we will explore the extent to which gratuitous goods can be made payable, and to which external benefits can be appropriated, or privatized. We will also examine in more detail than before the impact of economic growth and economic impoverishment on the development of gratuitous goods.

Fundamentally, a gratuitous good would cease to exist *if it were no longer a good*. If people no longer liked to listen to the stories that a passionate storyteller tells for free, then these stories would no longer be gratuitous goods, even though they would still be told freely. Also, a gratuitous economic good may become so abundant that it is no longer an *economic* good, even though it remains a good. This may result from a reduction of human wants relative to the available stock or, inversely, from an increase of stock relative to wants. If due to climate change there were suddenly regular rainfall in Mali, then water might very well no longer be scarce in that country. It would still be a good and would still be gratuitous, but would no longer be an economic good.

Similarly, a gratuitous good would also cease to be *gratuitous* if the causes of its gratuitousness were no longer given. Among the man-made causes, as we have repeatedly emphasized, private property plays a central role. If a law were enacted today to abrogate private-property rights of any

sort, both donations and the gratuitous side effects resulting from the market process would evaporate in the same breath. It would no longer be possible to donate anything whatsoever—and it would in fact be meaningless to think and speak of donations at all. Likewise, since without private-property rights there could be no exchange, but only murky tit for tat, it would be absurd to think or talk about any gratuitous effects resulting from it. Nobody would know, nobody *could* know, what exactly he might claim or owe. Nobody could know whether and to what extent he receives or provides anything for free.

However, man-made gratuitous goods can lose their gratuitous nature even within the confines of a private-property order. This concerns both donations and side-effect benefits. In what follows we shall look in more detail at the circumstances under which man-made gratuitous goods may decline within the setting of a free society. This will lead us to the question of how permanent and resilient the production of gratuitous goods might be in the absence of government interventions.

Withering Donations

The gratuitous nature of donations can be obliterated if any one of their four characteristics is no longer given. We have argued that only the combination of abundant resources *and* selfless purposes *and* a lack of reciprocity *and* free choices brings about a genuine donation. The purpose or finality of human action is always decisive. It informs all other aspects of action. A selfless orientation may vanish and give way to selfish motivations, so that gifts turn into grants, outright payments, or tit for tat. The same goods which before served as selfless donations are now brought into the purview of self-interested calculations. We shall call such a change of heart the *internalization* of a formerly gratuitous good. While it may itself be the origin of withering donations, a change of heart may also be motivated by outside events. Savings may dwindle and their abundance be lost. Finally, coercion may constrain free will and destroy gratuitousness from without. Let us discuss these changes in turn.

Shrinking Abundance

A person disposes of abundant resources when he commands more savings and time than he decides he needs—directly or indirectly—for his own gratification. We emphasized in chapter 2 that our concept of sacrificial abundance is a personal or subjective one. It springs from deliberate choice. It does not refer to the absolute level of a donor's

resources, but to the *relative importance* of self-oriented as compared to selfless uses of these resources. In other words, it refers to the subjective value of donations as demonstrated through the donor's actions. If the value of donations increases for a person, then that person will tend to dedicate more of his resources to donations, which is the same thing as saying that his resources will be more abundant. Inversely, if the value of donations diminishes for that person, then abundance takes a hit and so do donations. The person would spend less time with his children and frail parents, less time volunteering, and less money on charity and similar causes. It follows that donations may flourish even though the level of material wealth is low and that they may languish even in the presence of great wealth. It all depends on personal values.

Now, personal consumption tends to adjust to personal resources. Rich people tend to consume more than poor people. If a person becomes richer, his consumption is likely to increase, but so are the resources that he will likely donate. It may very well be that the *proportion* between the self-oriented and the selfless uses of his resources will stay exactly the same. In this case, the increase of wealth will not have affected the subjective value of donations.

But this is not a necessary outcome. It has been often observed that changes in fortune induce changes in personal character, sometimes of a dramatic and unexpected sort (see for example Schopenhauer, *Parerga and Paralipomena* [1851] 1905–10, vol. 5, pt. 2). I, chap. 3). Some people fall prey to avarice when they grow rich, others become great philanthropists, still others prodigal spenders under the same condition. Some people turn into misers when they become destitute, whereas others on such occasions develop great liberality in donating their time and the few savings they have left over.

As we argued in chapter 3, such changes in character are likely to depend on the causes of the change in fortune from which they result. If a disciplined man running a multigenerational family business reaps great profits after many years of hard work, he is not likely to change his objectives and habits very much or very suddenly. As a consequence, at least for a while, he will use his abundant savings to feed donations of various sorts. By contrast, a man who comes in to a lottery fortune or who gains millions quickly from stock-market speculation will be much more volatile in his reaction to the change of conditions.

Changes of heart and changes in the subjective value of donations frequently go hand in hand with the transmission of resources from one generation to the next. Usually, the children are less frugal than the parents.

Accordingly, the value of donations diminishes and there is less abundance.

Silent Changes of Heart

The decline of donations may also occur without any visible change in behavior and without any expression of the changed objectives. The change of heart may stay in the heart. It may be silent. It may involve nothing more than a shift of attitude and objectives, of such sort that the agent still *does* what he has always done, with the sole—but decisive—difference that he now *expects* a return.

Consider the following hypothetical example. Mr. Woods lives next door to Miss Heart. In the course of time, their good neighborly relations have turned into a friendship, and they have started making gifts to each other as expressions of their mutual appreciation. Mr. Woods typically gives flowers or chocolate, Miss Heart some homemade cake. All of these gifts are genuine gifts. They come without strings attached, without any expectation of reciprocity.

But then Mr. Woods develops a great craving for Miss Heart's cake. There is no place where he can buy anything similar, and he feels he just *must* have it in regular supply. The trouble is that he is convinced that Miss Heart's cake is only for friends. She would never sell it. A terrible passion of the senses overwhelms poor Woods and corrupts his mind. Clearly, if he now sets out to gratuitously donate chocolate to Heart *in order to* receive cake from her, then the chocolate's economic nature changes. It is no longer a gift. Woods's change of heart transforms the chocolate into an investment. To be sure, it is still transferred gratuitously, but this is here of no importance. It just means that the investment takes the form of a grant.

From the economic point of view, as we have seen, a grant is a very different animal than a gift. The characteristic feature of the latter is that it is not compared to any of the effects it might entail *for the donor*. It is appreciated and valued for its own sake, as a token of friendship. By contrast, a grant is part and parcel of a means-ends relationship. It is valued in light of the effects that it is likely to produce. When Woods *grants* the chocolate, he asks himself whether he gives too much in comparison to the cake that he expects to receive. When he *gives* the chocolate, he asks himself whether the gift is appropriate—whether it is adequate to himself, to Heart, and to their relationship.

It is impossible to empirically determine how frequent internalization is in practice. If we believe the anthropologists, it is widespread in the case of customary gifts. Our above example concerned customary gifts between neighbors, after all, and it is not difficult to think of similar examples, such

as birthday or Christmas presents.

Professionalization of Leisure Activities

Silent changes of heart do not always pop up without any external causes. In chapter 2, we quoted Jean-Baptiste Say, who wrote that prodigal spenders are likely to backtrack from their donations and to ask the donees for a quid pro quo. Their prodigality is bound to entail a deterioration of their material situation, which in turn is likely to bring about a change of heart. But the material context can also change for other reasons. Most notably, vigorous economic growth makes it possible to professionalize various leisure activities, and the gratuitous benefits that result from such activities are then turned into payable products.

As we have seen, when more capital becomes available, the division of labor is reinforced. Activities that formerly have not been profitable are now likely to yield monetary income. As a consequence, the opportunity costs of pursuing these activities as a hobby increase. Some people will then decide to no longer pursue them for their own sake, but to make a living. Many people who would otherwise have remained hobby scientists, hobby musicians, hobby sportsmen, or hobby painters will now turn their hobby into a career. Some American Protestants have demonstrated that even worship may be turned into a business.

Privatization

Homesteading Natural Resources

A venerable commonplace in economic thought is the idea that natural resources such as land, plants, and minerals are gratuitous. They are free goods available to all of mankind. They do not have to be produced. They are just "there" to be taken and to be used.

If this were the case, then it would seem to be difficult to justify the privatization of natural resources. Privatization literally means that one person or group (the owner) has the power to deprive other people of that resource. Why should John own a piece of land that neither he nor any other human being has created? Why should he be allowed to pick the beneficiaries of the land and of its fruits? Privatization seems to be a zero-sum game in which the lucky winner takes it all, at the expense of the rest of mankind. Natural resources could be gratuitous for all. They should be gratuitous for all. But then one man or one group comes along and prevents all others from enjoying them.

In chapter 1, we emphasized that this way of seeing things is not quite right. From the mere fact that a natural resource exists somewhere in the world it does not follow that it is freely available for just about anyone to pick it up and use it. Virtually all minerals are buried deep in the ground. Fish and animals need to be hunted or raised. Even apples and wheat do not spontaneously grow in such quality and quantity as needed. They are farmed, too. In other words, natural resources virtually never come "free." They are only available when considerable human intelligence and human labor are spent to make them available. They need to be homesteaded, transformed from their state of nature into a form that might serve human needs. Their *existence* is gratuitous, but not their *serviceability*. To be serviceable, natural resources need to be available at the right time, at the right place, and in the right form.

At the beginning of the human experience, before the Neolithic Revolution, our human ancestors survived as hunters and gatherers. As long as they were not too numerous, they did not need to privatize land and raise animals. When resources start to become scarce, privatization becomes necessary at some point, even though not always in the form of *individual* property. At the onset of the Neolithic Agricultural Revolution, for example, farmland was more often than not held *collectively*. It was private in the sense that only the members of the community had access to it, not outsiders, but there was no significant individual property in land. The use of the communal land was gratuitous for all inhabitants of a village.

Communal land tenure may last for centuries. In some places with static economic conditions, it has lasted into the present. But more often than not, land ownership has been individualized, for five main reasons: congestion, real-estate development, mining, violence, and political collapse.

Congestion is a typical consequence of economic growth. As the population size increases, the commons tend to become overcrowded and overused. Privatization for the benefit of individual persons or families is then a suitable and clear-cut solution. The Ostroms and others have studied the economics of privatization in some detail, duly stressing that individual property is but one of its variants. The salient point in all cases of privatization is that the use of the resource is now restricted even for some members of the community. In that sense it is privatized. The restriction is unavoidable irrespective of whether privatization comes in the form of individual property. The latter is just one of the solutions to the basic problem (congestion); it is not the cause of the problem itself.

Real-estate development, too, is a consequence of population growth

and economic growth. As families and businesses grow, it becomes necessary to add residential and commercial buildings to the existing settlements. The least costly extension is horizontal, but this conflicts with the collective use of the common land. Privatization of the commons is a sensible solution for this problem.

Mining gives access to minerals and water in the ground. Because mining projects involve heavy investments with uncertain results, they usually cannot be carried on by village *communities*, but require *organizations* with clear hierarchies and responsibilities. When communal land is sold to a private investor, the community members lose the gratuitous benefits of the land. But on the other hand, the resources in the ground become available. As Bastiat emphasized, in a competitive economy, there prevails a tendency to remunerate the services of labor and of capital, whereas the minerals taken out of the ground—with the help of labor and capital—are not remunerated. This implies that land privatization does not amount to a net destruction of gratuitous goods, but to a restructuring of gratuitous goods. Some of them disappear, and new ones become available.

Finally, land can be privatized by violence. Land grabs probably go back to the Neolithic era, and they continue to plague humanity.[1] Modern governments have institutionalized land grabs in the name of spatial planning and of protecting the environment. But the artificial concentration of landed property that results from land grabs is likely to implode in the absence of sufficient political power to back it up. A recent example is the transition of formerly socialist countries to more open markets in the 1990s, which involved the privatization of collectively held land and capital goods (overview in Schönfelder 2012).

Privatizing Side-Effect Goods

Is it possible to privatize side-effect goods? As we shall see, side-effect goods are in general much more robust than donations. This springs most notably from the fact that they do not depend on the corruptible human will. But side-effect goods are not completely immune to human scheming.

The most robust forms of side-effect goods seem to be pure side-effect goods such as friendship and happiness. Similarly, privatizing the value effects or the side effects of other people's errors seems to be out of the question. However, while the *existence* of these side-effect goods seems to be very robust, their *quantitative dimension* may vary considerably.

The material side effects springing from leisure activities are much less robust. Suppose James knows that on Free Avenue certain neighbors

traditionally keep the street clean and safe by their own initiatives. He might then be tempted to move there in order to free ride on the services of this community. He would be ready to pay a higher price than he otherwise would for a house on Free Avenue. The value of the ostensibly free services would in this case be integrated into the price of the house. A good that was formerly gratuitous, or which could have been gratuitous, then turns into a commodity, into a price.

Things are quite different when it comes to technical externalities. An entrepreneur who provides gratuitous goods to other firms may of course try to get payments from them. Whether he will succeed depends essentially on the costs of excluding these beneficiaries. Similarly, the wealth effects which result from the pricing process of the market and from savings can be privatized only if it is possible to exclude any competitors. If that is not possible, our entrepreneur can only try to negotiate an amiable compensation.

But then another problem appears. Our entrepreneur would need to know *whose* income rises by *how much* as a consequence of an *x* percent lower unit price of good A. But even this would not be enough. He would also need to know *how exactly* the beneficiaries of this additional real income would spend their dollars. Such knowledge is impossible to obtain. One may very well spend a lot of time and resources studying how people behaved in the past. But one should not expect to infer therefrom how they would behave today nor how they will react to price changes tomorrow.

There is a further difficulty in internalizing wealth effects of the pricing process into the economic calculus. For the sake of argument, suppose that it were possible to know the concrete wealth effects in advance. Then the producers could indeed consider making contracts with the prospective beneficiaries or they could try to exclude these beneficiaries. But it would by no means be certain that such arrangements would be worthwhile. The prospective benefits would have to be higher than the costs of harvesting the wealth effect. As in the case of harvesting positive externalities, it is likely that harvesting wealth effects would be just a waste of time and money. This is especially likely because of the informational problem that we highlighted before. Positive externalities may be *estimated*, as we have argued in chapter 7, whereas wealth effects can only be guessed. This implies, of course, that the gratuitous character of wealth effects is particularly solid. They have a double protection, so to speak.

For these reasons, the wealth effects that spring from the market process are unlikely to ever be privatized in a free economy. However, as we shall see in subsequent chapters, they can be privatized with government

support. For example, the liquidation of bankrupt firms can be controlled by the law and through public institutions. Any wealth effects that spring from the liquidation of assets at bargain prices (below production costs) can then only be obtained through the state-commissioned liquidator. The latter is then materially the private owner of these wealth effects and can sell them to the highest bidder.

Quacks and Muggers

We have highlighted the many goods that man enjoys without payment. Each healthy person gratuitously controls his body, and a healthy body gratuitously features the powers of the brain, of the inner organs, of the sense organs, and of the immune system. Similarly, the manifold goods that each person may enjoy as the spontaneous consequence of his natural, social, and political environment need to be counted among such gratuitous benefits—for example, the benefits of tranquil possession of property; the benefits of belonging to a family, a tribe, a nation; the benefits of sharing a common cultural heritage and of sharing goals and ideals with other persons.

Now, there are people who seek to make a living by having other people pay for things that these others objectively do not need or do not need to pay for. Quacks instill false beliefs in their victims. They affirm that a pill or potion will protect the purchaser's health or improve his well-being, while objectively these products have no such effect, with the possible exception of a placebo effect. As a consequence, the victim is induced to pay for something that he does not need. In the worst case, he pays for something that he already possesses (health).

Other people try to make a living by coercing people to make payments. "Your money or your life." The mugger takes without consent and thereby deprives his victim of a good that he already owned or enjoyed.

The case of the mugger is of fundamental importance for the theory of gratuitousness in that it represents the logical antipode of the gratuitous acquisition of property (see pp. 77–78; Mueller 2010, pp. 2, 20, and passim). *The opposite of receiving goods gratuitously is being gratuitously deprived of goods that one already possesses*. The opposite of a gratuitous good is a gratuitous evil. The mugger has no legitimate claim on the life or purse of his victim. He takes gratuitously. It is true that mugging is not completely gratuitous for the mugger because it carries the risk of criminal prosecution and social stigma, among other costs. But criminal activity by definition is gratuitous evil in that it illegitimately brings about adverse

consequences for other people.

But how does this square with our previous contention (pp. 31–33) that gratuitous goods are the binary opposite of market exchange? How can gratuitous goods be at the same time the opposite of mugging *and* of market exchange?

The answer is that there are two sorts of opposition involved. *Within the confines of a private-property social order*, gratuitous goods are the logical antipode of commodities purchased on the market (horizontal opposition). But mugging and other forms of invasion of property are even more fundamentally opposed to the noncoercive gratuitous acquisition of property (orthogonal opposition). In fact, they are not only opposed to the latter, but also to market exchange. Mugging is a frontal assault on the tranquil possession of *all* economic goods.

While crimes against persons and property are black holes of gratuitousness, quackery involves *imaginary* benefits that are voluntarily imagined. Nobody forces the victim of quackery to purchase and swallow a pill or receive an inoculation which he believes will improve his life. But the victim of mugging loses something of which he enjoyed tranquil possession.

Quackery is widespread and even endemic to the civilized world. It is part and parcel of Schopenhauer's "grand masquerade" (see pp. 102–7). Muggers are similarly widespread and ineradicable. However, in a free society, quacks and muggers only lead marginal existences. They may find occasional victims, but they cannot operate on a large scale and lastingly in broad daylight. They are overwhelmed by the combined forces of reason and law enforcement.

Things may change when reason and law enforcement become corrupted by political power. Then quacks and muggers may grow big. In the worst case, quacks and muggers come to run the government, as will be shown in part three.

Robust Gratuitousness

It is difficult to assess the robustness of the different forms of gratuitous economic goods in the light of empirical information. Statistics do not tell us anything about the *intentions* of donors. There are no statistics about the spontaneous wealth effects of the market process. Therefore, we have to satisfy ourselves with some general considerations about the vulnerability of the different forms of gratuitousness.

Donations of time and material goods are inseparable from the passage

of generations. Along with side-effect goods, they have been part of the human experience since the dawn of mankind. Gratuitous goods therefore truly belong to the DNA of a free society. But their quality and quantity may greatly vary under the impact of the factors that we have discussed in the present chapter, starting with the central importance of private-property rights.

It is possible that the visible gift economy is overappreciated as compared to spontaneous gratuitousness, which is currently immeasurable. While this limitation is regrettable from a scientific point of view, it has important and beneficial practical implications. Indeed, as we have seen, the impossibility of quantifying spontaneous gratuitousness *protects* the latter against the human cunning and corruption that are likely to infect the gift economy.

Side-effect goods are fruits of a loving and virtuous life, but also of ordinary market activity. The side effects of market exchange and for-profit activities depend on the motivation of market participants to improve their services, which in turn depends most notably on their ability to learn from nature and from other humans (processing information), as well as on the capital that can be deployed to sustain the consumption of people who not are producing capital goods. None of these factors seems to be threatened in a free-market setting. The greatest threats come from moral temptations and from a lack of economic growth.

A virtuous life is an important source of gratuitous goods. Precisely for this reason, there are great temptations to harvest these goods. Why, then, should a man choose virtue over payments? It appears that a free society seems to suffer from a fundamental incentive problem in regard to virtuous behavior. It does not pay. So why do people still do what is definitely *not* in their material interest to do? Why do they make the sacrifice? A religious person may answer in perfect devotion: because it is pleasing to my dear God. Or in imperfect devotion: because that is the way to paradise. All others can only answer: because virtuous behavior is in tune with the rational nature of man and therefore beautiful and desirable in itself. Reason leads man to seek what is true and good and beautiful. And the quest for truth, goodness, and beauty leads man to search for the source that generates all true, good, and beautiful things.

Free societies tend to be affluent societies. They do not lack abundance and generosity. Their main problem is to use them wisely. Abundance may lead to consumerist attitudes. It may pave the way for sloth and mindless indulgence. Generosity may degenerate into self-righteousness and dependence. When material growth is not accompanied by moral and

spiritual growth, these risks almost certainly turn into reality. Moral and spiritual growth involves self-restraint and circumspection. It requires genuine benevolence toward others, which can only spring from love and truth. In other words, there is nothing automatic in the evolution of abundance and generosity. There is no virtuous cycle leading from liberty to abundance and from there to ever-greater liberty and liberality on an exponential growth path. A permanent growth of abundance and generosity *is* possible, but it is a thorny and increasingly steep path, similar to a mountain passage.

An important threat for gratuitous goods comes from coercion. In part three, we will see that the nefarious consequences of coercion are greatly reinforced when coercion is institutionalized through the interventions of the state.

1See, for example, Karl Polanyi's (1944, pp. 34ff.) comments on the enclosure movement.

Part Three

Gratuitous Goods and the State

9

Interventionism

Economic goods are scarce. In order to increase the quantity or quality of economic goods that are provided and received gratuitously, someone has to bear the production costs. This is what economists mean when they insist that there is no such thing as a free lunch.

Dreamers and quacks think otherwise. Public policy is their preferred hunting ground, charlatanism their method. To the gullible public they promise something for nothing, thanks to the powers of the state. Often their schemes are alluring because they trade visible present benefits against as-yet-invisible future costs. Pay-as-you-go pension schemes are a case in point, monetary interventionism another. Some of these plans are complex, and some training is then required to see through their fallacies. But ultimately, they are all based on the spurious notion that the state is some sort of Santa Claus, not bound by the laws of cause and effect: The state has the miraculous ability to create economic goods out of nothing and for free. It should therefore be entrusted with solving all kinds of problems, from poverty to air pollution. We just need to give it a mandate. Bastiat ([1848] 1995, p. 144) summarized the Santa Claus theory of the state in a famous aphorism: "The State is the great fiction by which everybody seeks to live at the expense of everybody else."

The refutation of such fictions is the daily bread of the economist. This is true in the field of gratuitous goods as well. In order to distinguish genuine gratuitous goods from fictitious ones, it is first of all necessary to highlight the various means by which economic goods are obtained without payment. This is what we have done in the preceding chapters. We have seen that innumerable economic goods are produced and obtained—day in, day out—without payment, not only through donations, but also through ordinary market exchanges. A free economy can be understood as one giant organism that constantly churns out gratuitous benefits for all market

participants. Neglecting this aspect of a market order can entail serious policy errors, and it certainly puts a cap on the joys of living under capitalism.

The next step is to study the impact of government interventions. So far, we have studied gratuitous goods under the assumption that all social relations are based on the respect for private-property rights. We have relaxed this hypothesis only to examine the influence of *occasional* violations of property rights through the actions of muggers, conmen, and similar people. Now it is time to focus on *institutionalized* violations of property rights, as exemplified by the interventionism of the modern state.

Max Weber famously defined modern governments as communities of agents who successfully claim the monopoly of legitimate physical violence.1 They may do things that would be considered criminal if done by a private citizen. This appears in the very language that is commonly used to refer to government activities. We speak of conscription rather than of temporary enslavement, of taxation rather than of robbery, of regulation rather than of coercion, and so on. Modern governments are *not* bound by the common law, the "law of equal freedom" (Spencer [1851] 1995, chap. 4), the rules that apply to everybody else. Their acts are regulated by a special kind of law—public law. Unsurprisingly, therefore, their activities entail consequences very dissimilar to those that we observe in the private sector. It is these special features that we now need to study, as far as the production of gratuitous goods is concerned.

How does the government, when it taxes and regulates the rest of society, when it issues commands and prohibitions, influence the gratuitous providing and receiving of economic goods? This is the overall topic of part three. The present chapter will serve as an introduction.

We will start off discussing what the phrase a "monopolist of legitimate violence" implies in practice. Modern governments do not only apply and enforce the laws. They may also suspend these laws and create new ones that are at odds with them. In the economic literature, such activities are called government interventions. Below we will consider them in some more detail and highlight the importance of *permissive* interventions, which are particularly important today and have a great impact on gratuitous goods.

Private Government versus the Modern State

It is often assumed that in liberal democracies the agents of the state are subject to the same rules as all other members of society. They are part and

parcel of the social order and play by the same rule book as everyone else. They just have the particular mission of enforcing the laws of the land and of preserving peace and order.

This is not fully wrong, but neither is it fully right. In order to understand the characteristic feature of the modern state, it is helpful to contrast it with other forms. Many eminent writers have done this in historical perspective, comparing modern government with medieval feudal governments and with the governments of antiquity. For our present purposes, however, it is not necessary to give a full-blown historical account, and any such attempt would also embroil us in discussing questions of detail that are irrelevant for our present purposes. We will therefore facilitate our task by comparing the modern state to a hypothetical extreme form of government which is diametrically opposed to the modern state with respect to the practice of suspending and creating laws—private government.

The characteristic feature of a private government is that it operates within a purely private-law social order. In such a setting, there would be no special law that would only apply to the government. There would be no such thing as public law. Private law and legal customs would be the only law. They would literally be the "common law" that applies to everybody whether rich or poor. Within such a framework, each owner of landed property may be interpreted as a governor of his own estate. Private government would essentially be the management of landed property.2

A large landowner may rent chunks of his estate to people who pay him annually in exchange for the benefit of establishing their residence or their business on his land. He might not only lease the land to his tenants, but also provide various connected services; for example, road management, security, and arbitration services between the tenants. He might choose to provide these services on his own or to commission specialized firms and associations.

Insofar as he did not *sell* his land, but lease it, he would remain the residual owner of all goods related to the land that were not explicitly leased to the tenants and commissioners. He would be the ultimate arbiter of all the exceptional problems that were not anticipated in drawing up the contracts. But he would not strictly speaking *make* the law. He would not decide what the law is, but himself be subject to the principles of private law as well as to legal customs. The law and the customs would apply to himself and to everyone else (common law).

Such a landowner-governor might choose to provide some of his services without compensation, either as a commercial device (grant) or out

of sheer love for his tenants (gift). He would be able to make genuine gifts insofar as he is the true owner of the land and of the land-related revenue. This is what sets him apart from governments of a modern state.

The modern state arose in Europe in the sixteenth and seventeenth centuries out of princely opposition to the Catholic Church. Before that time, the leaders of the church—bishops, abbots, and others—very much operated like private governors, side by side with the secular rulers. They based their claims to rule on the common law and on the related theory of natural law.[3] The Protestant princes then set out to reform the church. But since they did not *own* much church property and could therefore do little, they proceeded to expropriate the church by taking exception to the common law. These deeds led to the legal, social, and political quagmire known as the religious wars. To get out of this debacle, the legal fictions of sovereign power and of the social contract turned out to be most helpful, for both doctrines have one crucial idea in common: the sovereign state (the sovereign political community) *makes* the law.[4] It is not just an ultimate arbiter between different interpretations of the common law in concrete cases. Rather, it is the very fount of right and wrong, of what is legal and what is illegal. The state makes the common law, and it may make it to its own liking. In this conception, the state itself is *under the law* only in the formal sense that its own decisions also apply to itself. However, materially, the modern state is *above the law* to the extent that its legal definitions are not bound by any principles higher than the sheer will of its own representatives.

In the field of economics, these political distinctions can be illustrated with the difference between mixed and interventionist economies. When governments purchase and sell goods and services, they more often than not behave in exactly the same way as all other persons and organizations. They are then part and parcel of the larger society and economy. They play by the same rule book as all others. Economists call this a mixed economy. Things are different when a government acts in the characteristic manner of a modern government, that is, when it takes exception to the common law. In such cases it is *intervening* in the economy. The modern state claims the authority to override any and all established laws and claims. It is an interventionist state.

Repressive and Permissive Interventions

A government intervention is a partial violation of private-property rights. In the famous words of Mises, it is "a limited order by a social

authority forcing the owners of the means of production and entrepreneurs to employ their means in a different manner than they otherwise would" (Mises [1929] 2011, p. 4). When the government is conscripting soldiers, it violates the right that the latter ordinarily have in their own persons. When it taxes the citizens, it violates the right that the taxpayers have to use their money as they see fit. These are *partial* violations. Conscription usually is temporary and taxation rarely amounts to complete expropriation. But in all cases, the ordinary property rights of the people are to some extent violated.

All government interventions have both repressive and permissive effects (see Hülsmann 2016, 2017, 2018). They are *repressive* in that they curb the citizens' exercise of their ordinary property rights. They are *permissive* in that they create beneficiaries who are able to overstep the natural boundaries of their own private property and do things that they could not otherwise do. The very meaning of an intervention is to transgress the ordinary or common-law limits of private property. The rights of the victims of such transgressions are curtailed. Their liberty is repressed, whereas the liberties of the perpetrator, of his allies, and of some bystanders are enhanced.

The repressive effects curb initiative. The permissive effects facilitate and encourage irresponsibility and outright frivolous behavior. These problems then typically serve as a pretext for further and more far-reaching interventions.

Spirals of permissive interventions are different from repressive spirals. In the latter, the citizens are driven to *evasion*, and this creates *supply-side* shortages that prompt the government to intervene ever more to prop up supply. By contrast, in permissive spirals, the citizens do not evade the interventions, but rush to benefit from them as much as possible. The demand for the ostensibly gratuitous benefits increases and thereby tends to create *demand-side* shortages. The state is therefore driven to step up its interventions in order to curb demand. Let us look at these effects in some more detail.

The Dynamics of Repressive Interventions

The government applies violence, or threatens to apply it, in order to induce its subjects to behave differently than they otherwise would. They have to pay taxes and respect various regulations. They have to spend their money in a certain way; for example, on what the government believes to be solid buildings and healthy food, on health insurance, on car insurance, and so on.

Insofar as they are repressive, government interventions create unwanted co-ownership. The very principle according to which the government has the authority to ordain this and that use of private property turns the government—or other designated beneficiaries— into co-owners of the property of other people. But this is not *voluntary co-ownership* as in a business partnership or a condominium apartment building. It is *coercive co-ownership* at the point of a gun. And such coercive co-ownership cannot fail to entail a *race to the bottom*, as in a forced marriage between two egocentrics. When benefits are private and rivalrous while ownership is coercively collectivized, then each of the two unwilling partners tries to secure the greatest benefits for himself, while minimizing his own contribution to the common good. Each one seeks to obtain as large a payoff as possible and as quickly as possible, while neglecting to make any efforts for the long-run preservation of resources. Short-run services are extracted at the expense of longer-run serviceability. Repressive interventions therefore lead to capital consumption and long-run impoverishment.

There is a similar race to the bottom in that repressive interventions tend to spill over. They create problems in other fields where the government had not intervened, and thereby lead the government to also intervene there. For example, when the government prohibits certain farmers from producing certain crops on their land in order to bolster the prices of these crops, these farmers are likely to shift to other crops, thereby inducing their prices to drop, with adverse effects for farmer revenues, leading to calls for more government help. The government may then mandate that no crops at all be planted on a certain percentage of the land. The farmers will then choose to leave their poorest soils idle and to till the better land all the more intensively, thus perpetuating the problem of oversupply. The government may then increase the percentage of the land that must not be tilled, and so on.

The race to the bottom between the citizens and the repressive state is an interventionist spiral. In order to preserve its control of the available resources, the government is tempted to issue ever more orders. It seeks to restrain one sort of behavior and to ordain another one. The citizens, in their turn, react by anticipating the next waves of interventions, which prompts them to accelerate the exploitation of the available resources as long as they still have any liberty to use them.

The Dynamics of Permissive Interventions

The permissive effects of interventionism are particularly important in

present-day societies and deserve careful attention. They are characteristic of democratic societies, in which government power is obtained, preserved, and extended through general elections. Political parties compete, *inter alia*, by championing permissive policies that apparently increase the liberties of voters and pressure groups.

Government interventions are *always permissive in regard to the government itself*. Taxing and regulating other people conveys resources and power to the state. The creation of legal loopholes has the same effect. Today, US Senators are not subject to insider-trading regulations; the employees of international organizations such as the Organization for Economic Cooperation and Development (OECD) and the European Commission do not pay national income taxes; and the employees of most central banks, of the Bank for International Settlement (BIS), and of too-big-to-fail commercial banks are immune from arrest or imprisonment and not subject to national jurisdiction "for acts carried out in discharge of their duties" (BIS 2013, sec. 12). Most recently, during the 2021–22 political campaign for mandatory covid treatments, legal exemptions were granted to all US Congress members and their staff, as well as to the employees of the White House, of the Centers for Disease Control and Prevention (CDC), of the Food and Drug Administration (FDA), and of the major drug companies producing the mRNA treatments (Pfizer, Moderna, and Johnson & Johnson).

While special privileges for the political establishment are legendary, for electoral and similar reasons the government *also* seeks to increase the liberties of other people beyond their natural limits. This happens in particular when the government pays subsidies—when it bails out failed firms or hands out welfare checks—or when it allows certain people to break contracts and the law. For example, governments have often authorized labor unions to break the law by coercing managers and strike breakers. They have authorized industrial companies to pollute rivers and the air, overriding the preexisting rights of neighbors. They have authorized banks to renege on their contractual obligations and to suspend their payments. They have again and again relieved pharmaceutical companies of common-law producer liability.5

The dynamics of permissive interventions revolve around the fact that their beneficiaries receive certain goods gratuitously or, more precisely, at the expense of other people. Permissive interventions therefore *attract* willing beneficiaries, whereas repressive interventions provoke attempts at *evasion*.

Government subsidies are an obvious case in point. When single

parents are subsidized, the single-parent lifestyle will attract more people. When juvenile delinquents receive either mild or no punishment at all, more and more children and youths will seek to enrich themselves (or the elders who command them) through violent attacks on their fellow human beings. When firms are subsidized, their owners will be less interested in serving customers. When firms are bailed out, their owners will be less interested in self-preservation, and bailouts will therefore become more frequent. When the unemployed are supported by the dole, the incentive to remain unemployed increases whenever market wage rates are close to the level of the dole. Government pension schemes undermine the incentives to marry and start a family. Tax-funded education systems increase the incentives to study for longer and for personal enjoyment rather than in preparation for a professional career. And so on.

In the long run, all such policies are self-defeating. They undermine the very foundations of life in society. They pitch self-interest against the common good. In economics, such problems are called *rationality traps* or *prisoner's dilemmas*.6 Permissive interventions encourage people to behave in a way that carries material advantages from the individual's short-run point of view, whereas from any other point of view it is destructive. They discourage people from making the sacrifices that they ordinarily would make. They seduce people into irresponsible behavior. Individual people are behaving rationally for the short run, but society as a whole is going downhill.

Monetary Interventions

Monetary interventions are permissive interventions on stilts. Today all central banks create fiat money out of nothing. There is no technical or commercial limitation to the production of banknotes and accounting money. The remaining legal limitations are few in number and these legal barriers are constantly tested before the courts.

More so than in the case of any other type of government intervention, the creation of money has time and again nourished the most fanciful ideas about the costless creation of wealth for all. What Melchior Palyi wrote in 1962 (p. 62) is still valid today:

> The object of inflationist wishful thinking is the centuries-old dream of perpetual prosperity at no social cost. Money-printing does the trick. . . . The underlying assumptions were two: that labor will not ask for higher wages even if prices rose (the unions are not interested in the cost of living, Keynes

asserted), and that the inflationary process can be thrown in reverse gear whenever the money managers decide to do so (as if they were not only immaculately wise, but also omnipotent).

From time immemorial, governments have meddled with money. The reason is that increases in the money supply boost the real revenues of the *first owners* of the new money units at the expense of those who come to own these new units last. Indeed, following an expansion of the money stock, individual prices do not increase at the same time and in the same proportion, but at different points in time and in different proportions. These consequences of an increase in the money stock are called Cantillon effects, after Richard Cantillon (1997), who described them at the beginning of the eighteenth century. The uneven impact of money production on individual prices creates winners and losers. Winners are those who sell at prices that increase faster or more sharply than the prices at which they buy and losers those who suffer the reverse. But this works out especially to the benefit of the *first owners* of the new units produced. Indeed, these can exchange the new units while the price level is still at its initial level, while those who use the new units last have to pay higher purchase prices before they can increase their spending.

Governments therefore have a material incentive to gain monopoly control of the production of money, to impose on the market such types of money as can be multiplied at will, and to make sure that they are among the first users of the new money units.

The types of fiat money have changed in the course of history, but the basic principles and motivations have remained the same in all times and places. The Greek and Roman governments replaced silver and gold coins with token coins, the Mongol rulers replaced precious metals with paper notes, and modern governments have also replaced them with scriptural or accounting money. With fiat money, the government always wins at the expense of the great bulk of the population. Our modern systems excel—if this is the word— in that they allow for especially large and fast redistributions of monetary income and wealth. Those who control the printing press, and their connections, are able to exert almost unlimited control over all the resources that are traded on markets—labor, raw materials, capital goods, and consumer goods.

FIGURE 6: CONSUMER PRICES IN THE UNITED KINGDOM, 1800—2021

Sources: ONS, dataset MM23, Long-term indicator of prices of consumer goods and services; Jan. 1974 = 100.

The most visible effect of monetary interventionism in our day is perennial price inflation. Since the Genoa Conference of 1922, national central banks have officially coordinated in order to facilitate expansionary monetary policies. Since World War II, these policies have produced near-uninterrupted price inflation (see Figure 6 for the case of the UK). The consequence has been the *financialization* of the economy, meaning that households and nonfinancial firms increasingly behave like financial agents. Indeed, when the level of money prices rises permanently and predictably, all agents have strong incentives to *leverage* their investments and hold a large part of their wealth in the form of liquid financial assets.

The distinct *disadvantage* of leveraging is that it goes hand in hand with a greater risk of bankruptcy. Business owners who wish to stay in business therefore prefer to use primarily their own money and to use loans only with much moderation.

However, leverage becomes widespread when over many years the interest rate is lower than the expected price-inflation rate. It becomes irresistible if the leveraged investor can also expect to be bailed out. Both conditions for widespread leverage have been fulfilled in the economies of the Western Hemisphere most of the time since World War II. Central banks have driven this process, not only by relentlessly providing cheap loans from the printing press, but also by bailing out systemically important commercial banks.

We will examine the macroeconomic consequences of this development and its impact on gratuitous goods in chapters 11 and 12. To conclude this introductory chapter, we would like to lay out some basic considerations on the general relationship between interventionism and gratuitous goods.

Interventionism and Gratuitous Goods

We have repeatedly pointed out that crimes against persons and property represent the logical opposite of gratuitous goods. Crimes are gratuitous evils. They take away goods from their rightful owners without justification. The criminal arrogates to himself a power over others to which he is not entitled and which those others do not owe him. Crime is therefore a black hole of gratuitousness. It involves a gratuitous gain for the criminal and a corresponding loss for the victim.

The criminal *obtains* various goods—power over the lives and actions of others, the enjoyment of stolen material goods, and so on—in excess of what he may legitimately claim and in excess of what others truly owe him. Crime often pays, at least in the short run.

The victim of a crime *loses* various economic goods, such as material property, health, and time. And with his property he loses all the gratuitous benefits that spring from it. As we have argued, the very point of property *rights* is to preserve the gratuitous services of nature for the owner. For example, the owner of a house enjoys protection from wind, storm, sun, and rain. He may pay for a new wall with the sweat of his brow or with money from his purse. But he does not have to pay the wall to *remain* solid and protect him. The wall serves him for free. The property *rights* of the owner are not legal ties between him and the wall, but between him and other humans. Property rights convey to him a claim on these others—the claim to be left alone in his tranquil possession of the wall—along with a corresponding obligation on the part of these others.

This seems to have straightforward implications for government interventions. After all, governments make claims on the lives and possessions of others in very much the same ways as ordinary criminals. This is obviously so in the case of totalitarian regimes. It is no less obvious in the case of rogue states and of states built on slavery. To some extent it even holds true for the present-day liberal democracies of the West. Expressions such as confiscation, seizure, asset forfeiture, socialization, and nationalization befog the plain fact that the agents of interventionist "liberal" states take lives and property from other persons; that they thereby come to control these resources; and that they bring about a redistribution

of gratuitous goods very much as in the case of ordinary crime. Liberal democracies also lead wars of aggression. They also conscript their citizens and torture their enemies. They also incarcerate people for saying and publishing the wrong things. They also condone the massive slaughter of innocents (think of the abortion industry). They also tend to enslave their populations with skyrocketing taxes and forced contributions to state-sponsored social security organizations, as well as with a monetary system that lures all people into debt and dependency.

The Legitimacy of the Interventionist State

Our proposition that interventionism destroys gratuitous goods, basically in the same way as gratuitous goods are destroyed through criminal activities, is liable to the objection that the activities of the state are *legitimate*.

The residents of a country are *obliged* to pay taxes. The government is *entitled* to receive these sums. It does not matter that the corresponding claims and obligations have no contractual basis, nor any foundation in custom and precedent. It is true that they are rooted in government *fiat*. They are conjured up out of thin air. But the claims and obligations created by the interventionist state are legitimate. When the state regulates property, it does not arrogate to itself any powers. When it taxes the population, it does not gratuitously obtain monetary income. It receives what it can rightfully claim. The taxpayers pay what they rightfully owe.

This objection seems to coincide with Max Weber's definition of the modern state as a community that successfully claims the monopoly of legitimate violence. However, notice that this is a definition, not a demonstration. Anyone can make *claims*. Anyone can claim that his own actions are legitimate. But his actions are not really legitimate unless these claims are true. Weber did not address the question whether *any* monopoly of violence is *in fact* legitimate.[7] It is patent that modern states have *successfully* claimed their monopolies. But this does not prove much with respect to the truth of their claims. Their monopolies could merely be the result of juridical error. Or they could merely show that the claimants are powerful enough to crush all resistance. Might does not make right. Power is not the same thing as legitimacy.

Government agents are typically convinced of the legitimacy of interventionism. Again, this can hardly count as a demonstration. Even criminals occasionally attempt to justify themselves when caught in the act. Insolent muggers and looters say that they "need" other people's money, or that they were reestablishing a more proper distribution of wealth.

Governments possess incomparably greater resources than muggers and looters. They are able to hire armies of very bright people who help them to come up with much smarter justifications than one could expect from ordinary criminals. They may also use their power to censor any fundamental critique of interventionism and to broadcast their own point of view through state schools, state universities, and state-licensed media, day in, day out.[8]

The most basic argument in favor of the legitimacy of the interventionist state is that no social life and no social institution of any kind could flourish without it. If there were no Leviathan state, so the argument goes, then all men would be at each other's throats more or less all of the time. In such a brutish state of universal and total war, there might very well be no law and no rights at all. At the very least, all personal and property rights would be precarious. Markets could not develop to any significant degree. Civilization could not thrive.

All arguments to the effect that the state violates private-property rights, or that it robs the taxpayers, therefore appear to be self-defeating. While it is true that government is an apparatus of compulsion and coercion, the point is that this coercion is *legitimate*. It is not opposed to but fundamental for property rights of any sort. The interventionist state is *best suited* to protect the population, its belongings, its welfare, and the common good.[9]

Notice that this argument is entirely based on considerations of expediency, rather than on considerations of justice.[10] Indeed, for a government to be just, it must fulfill certain prerequisites. Most notably, it has to fall under the common law. A private government of the sort that we have discussed above *could* therefore be a just government. It could rule by virtue of its ownership of the land, and it could come to possess the land under the common law by home-steading it or by purchasing it from others, for example. A land-owner has the legitimate right under the common law to protect his property and to enforce the contractual stipulations that bind him to others who use his land. His rule can be a just rule.

By contrast, an interventionist state *cannot* be a just state by the standards of the common law. To intervene means to violate the common law. It means to violate property rights, and such violations cannot be licit *as such*. Violence exercised by the government in the name of preserving society is wrong inasmuch it is violent; that is, to the extent that it breaks the common law. Even the advocates of the modern state concede this point. They argue that violence, though wrong *per se*, is legitimate if it

serves a vital purpose and is exercised on behalf of the whole body politic. But this argument concedes the point under contention. Violence is wrong *per se*. It is *intrinsically* wrong and legitimized only for *extrinsic* reasons.

This is why Saint Augustine famously said: "Justice being taken away, then, what are kingdoms but great robberies? For what are robberies themselves, but little kingdoms?"[11] In our day, Frank van Dun and Hans-Hermann Hoppe have demonstrated in their brilliant works on argumentation ethics that it is outright impossible to justify violations of property rights, as such, by any argument what-soever. Any attempt of this sort invariably runs into self-contradictions.[12]

Violence can be justified only by extrinsic reasons; that is, in light of its beneficial effects. If such effects do not exist, the justification evaporates. This is where economists come into play. The core business of economic analysis is to understand causal relations in complex social systems: the causes and consequences of market exchange, social organization, and government activities. Classical economists and economists of the Austrian School have refuted, one by one, all the utilitarian arguments purporting to demonstrate the expediency of the interventionist state. They have shown that individual initiatives and free associations between individual persons tend to produce superior results without intervention. This holds true for all areas of life, even for the production of security. Protection against criminals and foreign aggressors, as well as arbitration and other judicial services, is best left to private initiative.[13] The coercive powers of the interventionist state do not improve protection and arbitration, but undermine them quite significantly as far as the general population is concerned. The only entity that is better protected through interventionism, at least in the short run, is the Leviathan state itself.

If the economic critique of interventionism is pertinent, as the present author believes it is, then it follows that the modern state has no legitimacy to create claims and obligations out of thin air. And this implies that it may not *legitimately* tax and regulate the population. Clearly, the state has power on its side. It can make lives miserable and it can ruin the material existence of its subjects. This is why it can issue commands and expect to be obeyed. This is why most people pay taxes. They do not pay them out of genuine obligation, but out of fear and for the sake of peace and public order.

Social Contract or Forced Donations?

The foregoing considerations suggest that all government interventions involve gratuitous transfers of economic goods. Indeed, if taxes cannot be

legitimized, then it follows that they are by their very nature paid and received *in excess* of any legitimate claims and obligations. But then they are essentially gratuitous payments, though of a special kind. They are *forced donations* from taxpayers to the government. Similarly, the gratuitous money transfers made by the welfare state are gratuitous, but in the same way as loot sharing is gratuitous. The government robs the taxpayer and then shares the loot. Again, this analogy was already drawn by Saint Augustine. Right after his analogy between states and robber bands, he makes the following statement: "The [robber] band itself is made up of men; it is ruled by the authority of a prince, it is knit together by the pact of the confederacy; the booty is divided by the law agreed on."[14]

How do these contentions stand up to criticism? Does the welfare state —which seems to be the most obvious case in point—actually provide its services *gratuitously*? Clearly, its services are typically provided without payment or below market prices. But arguably, these services are not gratuitous in the strict sense of the word.

Standard theory portrays the relationships between the state, the taxpayers, and the beneficiaries of state services as being connected through a grand social contract, a system of tit for tat involving all citizens. Each citizen gives up his individual right to protect himself and his loved ones in exchange for better protection under the large wings of the Leviathan state. All residents fund the welfare state with their taxes, and in exchange the state protects the paymasters and all others against economic hardship.

Social-contract theory is obviously a fictitious construct. No social contract has ever been concluded in the past. And even if such a pact had been made between the members of a previous generation, it could not bind the current one.[15] These considerations alone fully explode the theory. They refute the contention that taxpayers and tax receivers are involved in a legitimate tit for tat. Tax receivers do not have legitimate claims to receive taxes. Taxpayers are not morally obliged to pay taxes. Paying and receiving taxes are gratuitous acts.

However, one could argue that social-contract theory does not have to be true in order to be relevant for the economics of gratuitous goods. The sheer fact that it is today the *standard* theory *makes* it relevant, for this fact implies that virtually all state agents and all beneficiaries of the welfare state, as well as most people who have to fund the welfare state, *profess* to be involved in a grand social tit for tat. But in this case the services of the state cannot be perceived as gifts. The letter of the law is actually crystal clear about this point. Citizens have *the right* to be protected. Legal residents (and sometimes even illegal ones) have the right to benefit from state

medical services, state schooling, state housing, etc. They therefore do not receive these services gratuitously. At least, this is what the theory seems to imply.16

However, the social-contract interpretation seems to be at odds with other relevant facts. Welfare beneficiaries do not *directly* pay for the services received, and the beneficiaries are led to believe that they obtain these services without paying the full market price; that is, that they obtain certain goods gratuitously. This is, after all, the very point of the welfare state, the very reason for its popularity.

Tax law, too, seems to imply that taxes are being paid gratuitously. Indeed, the payment of *taxes* does not involve any obligation on the part of the receiving government. From a legal point of view, taxes are *not* payments for distinct services, unlike the tolls paid by the users of public bridges and unlike administrative fees and various other specific payments made to the state. Even the payments that go to state-sponsored social security systems typically go hand in hand with corresponding obligations of the social-security administration. But taxes are different. The government is completely free to use them as it sees fit. Taxes therefore need to be classified as forced donations. The government is the donee of forced donations, rather than one of the parties of a social tit for tat.

We therefore maintain our contention that *all* mandatory payments to the welfare state—whether taxes or contributions to social security systems—are forced donations from the taxpayers to the state. They are by their very nature paid and received in excess of any truly legitimate claims and obligations.

Property Rights Perverted

Through state interventions, the agents of the state obtain material goods, as well as power over other people, in excess of what they may legitimately claim and in excess of what others truly owe them. And the subjects of the interventionist state lose various economic goods, and thereby they also lose the gratuitous benefits that spring from private property.

When interventions become pervasive, all goods need to be defended all the time, in parliament and before the courts, against the onslaughts of others. Judge Gideon Tucker (1870, p. 249), in an 1866 verdict on an inheritance case, scolded the defendant to have "forgotten the saying that 'no man's life, liberty, or property are safe while the Legislature is in session.'" This is an important point. Under interventionism, possession becomes less tranquil and more precarious than it otherwise would have

been. The destruction of gratuitous goods through government interventionism is therefore not accidental, but enshrined into the very nature of the modern state. The latter attacks natural liberty and the gratuitous enjoyment of property—Smith's "tranquillity"—at its very root.

One might object that property is always costly. It always needs to be defended. This is true. But notice that under the common law, such defense costs would diminish with the progress of civilization and the pacification of social relations. *In fine*, as Bastiat and Herbert Spencer have argued, they are likely to drop to zero, so that the enjoyment of property would become almost completely gratuitous. By contrast, with interventionist policies, the costs of ownership cannot be expected to diminish because invasions of private property are the core business of political agents. The costs of ownership therefore tend to increase. Property needs to be defended relentlessly against political onslaughts. And once any piece of property becomes the victim of a successful invasion—once it becomes subject to regulation and taxation—this invasion is likely to increase in the course of time. Forms need to be filled out and filed and taxes need to be paid every single year.

We see here that interventionism fundamentally changes the scope and meaning of property rights. In a hypothetical private-law society, all claims and obligations would be defined by the persons who are immediately concerned. Contracts would specify the claims and obligations involved in human cooperation. Land boundaries and building rights would be settled between neighbors. Landed property rights would be the products of such private legal arrangements. To be mutually beneficial, they would tend to be just and permanent, thereby reducing the costs of ownership for all neighbors.

By contrast, under interventionism, property rights are no longer embedded in the interactions between the people who are directly concerned. They are now rooted in the hierarchical relationship between each owner and a central political authority. In such a setting, property rights are privileges that need to be renewed periodically. The owner of a house or of a piece of land, so to say, needs to renew his ownership license by paying property taxes. Property rights no longer serve to reduce the costs of ownership, ideally to zero. They now serve to provide the agents of the state with permanent revenue and permanent control.

Side-Effect Goods of Interventionism

We have just seen that interventionism by its very nature destroys gratuitous goods in various direct and indirect ways. To complete this part

of our investigation, we now need to consider the possibility that it brings about gratuitous goods in the form of side-effect benefits.

This could be the case to the extent that interventions produce economic goods, such as protection against criminals and external foes, a sound legal order, sound money, or the pacification of social relations through the welfare state. These goods are not themselves gratuitous, but they certainly do entail gratuitous side effects, just as all other goods entail side-effect goods. Most notably, they go hand in hand with greater concentration, predictability, and security, all of which entail greater economies of scale. To wit, legal monopolies prevent all other people from entering the monopolized field of activity. The production of the monopolized good is concentrated. As a consequence, all other people will devote their energies to other tasks. For example, the greater security which becomes possible thanks to a Leviathan state puts all other people in the happy position of having to devote fewer resources to defend and protect themselves. The time and capital that they save can now be devoted to other activities. The same thing could also be said about the greater stabilization of the legal and economic environment which becomes possible due to government interventions. For this reason, too, all other people can make important savings of time and capital, which will become available for other projects. From an aggregate point of view, therefore, the monopoly leads to economies of scale, and these economies are usually presented as *positive* side effects by the political authorities.

However, these benefits are questionable if not outright illusory. On the one hand, the goods produced by government interventions must not be seen in isolation but in the overall economic context, and the latter deteriorates when the government intervenes. On the other hand, interventions produce such goods only in the short run, while they fail to deliver them in the long run

The economies of scale that result from legal monopolies are economic goods, *ceteris paribus*. The problem is that the monopoly not only entails economies of scale, but also deteriorates other goods. For example, it goes hand in hand with dependence on the monopolist producer. It also goes hand in hand with the risk that this monopolist will not be faithful to his mission and obligations. Since the entire country now depends on a single source for a vital service, any default on the monopolist's part entails the collapse of all dependents at once. The social fabric becomes fragile. There is therefore a trade-off between different goods, such as economies of scale, independence, and robustness. Legal monopolies tilt the balance in favor of one good, while neglecting the others. Political propaganda then focuses

unilaterally on the benefits and downplays the costs. But the problem of balancing the different objectives remains, and it is usually not the case that one size fits all. Usually, different people need different combinations of cost savings, independence, and robustness (to name just these three). What the government does is to impose one combination for all.

Moreover, legal monopolies tend to deteriorate the *quality* of the product. The monopolist is removed from competitive pressure. Therefore, he will be able to charge higher prices than he could have obtained under competition, and he can afford to reduce (or to not improve) the quality of his product. In the long run, this implies that the monopolized good will tend to be underproduced in quality and quantity.

The Neglect of Interventionism

Because of their characteristic and far-reaching consequences, interventionist policies deserve the special attention of all people who wish to understand modern political and economic problems. Unfortunately, despite the efforts of Eugen von Böhm-Bawerk, Ludwig von Mises, Hans Sennholz, Murray Rothbard, Hans-Hermann Hoppe, Robert Higgs, Thomas DiLorenzo, Pascal Salin, Jesús Huerta de Soto, Jacques and Pierre Garello, Stefan Blankertz, Randall Holcombe, Gunther Schnabl, Thorsten Polleit, Philipp Bagus, and a host of other good economists, this fact still has to make it into the perception of the general public.

The confusion around interventionism springs most notably from its *permissive* effects. Government interventions are typically associated with the repressive effects that they entail, with the countless prohibitions and commands issued by the state. By contrast, their licentious or permissive effects are held to be additions to individual liberty, especially when they are funded by the printing press.[17]

It is true that *ex nihilo* loans from the printing press make it possible for households to spend more money on houses, apartments, and motor vehicles, and that the printing press makes it possible for firms to spend more money on labor, equipment, and raw materials. In a way, therefore, the liberties of the market participants *are* increased, and it is only too tempting to consider such effects to be part and parcel of the free economy.

However, a genuinely free economy is premised on respect for private-property rights, whereas interventions by their very nature are violations of private property. The license that is nurtured by the printing press is deep down no different from the license fed by a state-sponsored employment relief program or from the license of a slave owner. In all such cases, the

liberties of the beneficiaries are bought at the expense of unwilling victims. There are people who are forced to adhere to the state-sponsored unemployment relief programs and many others who are forced to subsidize them. Slaves are robbed of their own liberty to increase the liberties of the slave owners. And most owners of money suffer when the central bank, or a commercial bank, creates money out of thin air.

License is not equal liberty for all under the common law. It is "mammonism," in the words of Franz Keller (1912). It is more liberty for some at the expense of less liberty for others, brought about by special privileges. An interventionist regime is not a free economy, but an economy distorted by violations of property rights.

As we shall see below, government interventions have dramatically *adverse* consequences for gratuitous goods. They reduce the ability and willingness of private households to make gifts. They make people indifferent and cold-hearted toward each other. These problems are well known, but most observers believe that they are the natural consequence of a free economy, of capitalism and unfettered markets, rather than of government interventions. Such misinterpretations typically motivate public policies that are likely to *reinforce* rather than solve the problems.

The solution to institutionalized indifference is not to subsidize civil society or nonprofit organizations and other elements of the so-called independent sector with taxpayer money. Taking inspiration from Tocqueville's vivid portrayal of nineteenth-century American society, Richard Cornuelle emphasized that human society is not a two-pronged universe of markets and states.[18] There is also a distinct nonprofit sector, which is *not* a mix of markets and states. It includes families, clubs, and associations, and provides various goods of the greatest importance. Today, many scholars and social leaders accept this distinction and believe it to be a key to social progress in our time. They see in the development of civil society a potential solution for any problem that might affect states and markets. It is only too tempting to hope that nongovernmental organizations (NGOs) of various sorts might turn out to be a better social repair shop than the bloodless welfare state. Unfortunately, however, such hopes are ill founded. Government interventions do not just alter the workings of a market economy. They are likely to shape any and all social relations, not least of all the activities within civil society.

1See Weber (1919, p. 4). See also Weber (1922, pt. 1, chap. 1, sec. 17, pp. 29–30) and Oppenheimer ([1907] 1990, pp. 19–20 and passim).

2An early theoretical discussion of private-law social orders is in Haller (1820, vol. 2). More recently, and from different perspectives, see Brunner (1942), Voegelin ([1938] 1996, [1952] 1959), Rothbard (1973, 1982), Hoppe (1989, 2001, 2021), and Bassani (2021).

3On the close affinities between natural law and the common law, see O'Sullivan (1950), Wu (1954), Ibbetson (2001), and McWilliams (2010).

4Another characteristic feature is its corporate form (see Creveld 1999), but this is less relevant for our concerns.

5A similar case is limited liability. To some extent, such limitations may result from the free and responsible choices of the market participants. Peter may agree to lend one hundred dollars to Paul, who runs a limited liability business. If the business goes bankrupt, Peter might not see his money again, because Paul is liable only for as much as he owns in his company. But things are very different in noncontractual social relations; if Paul causes an accident with a company vehicle on a business trip, and supposing his conduct is not negligent, then it seems that not only might his company have to compensate the victims to the full extent of its equity capital, but Paul himself (as the owner of the firm) might have to compensate them out of his private wealth if the equity capital is insufficient to cover the damage. Indeed, the victims did not consent to any limitations on Paul's liability. In such cases, Paul's liability can only be limited *by government decree*. This limited liability is then an instance of permissive interventionism. The firm can take on more risks and cause more damage than it could in a free society.

6The mainstream theory of prisoner's dilemmas is flawed to the extent that it compares real-world choices to an unattainable optimum or Nirvana world. A similar problem afflicts the mainstream theory of moral hazard. See Hülsmann (2006).

7Weber ([1922] 1947, p. 19) listed the typical psychological motivations that prompt acting persons to *ascribe* legitimacy to a political order—the reasons why they *believe* the order to be legitimate (*Legitimitätsglaube*). But, again, such beliefs are irrelevant to the question of whether the order *is* in fact legitimate.

8See Bernays (1928) and Hoppe (2021, chap. 1). A potent justification consists in portraying the state as the logical opposite of and political remedy for the self-interested activities of the market. The state presents itself as the great and central agency that performs the necessary sacrifices on behalf of the political community. However, Moshe Halbertal (2012, p. 105) points out that this reverses the true state of affairs. The state is not the agency that does the sacrificing, but the agent that demands and absorbs sacrifices on a grand scale. "The modern state's hunger for human sacrifice is insatiable." Halbertal concludes that in "positing itself as a sacrificial stage and the genuine realm of noninstrumental action, the state threatens to exhaust and monopolize the realm of the transcendent. It thus becomes a false god, providing the loyal citizen a

misdirected sense of redemption from his selfish cage" (p. 116).

9This argument goes back to Hobbes ([1651] 1904). Mises (1962) has also adopted it in his political philosophy. Other theoreticians, such as Hans Kelsen ([1960] 1967, chap. 6) and the anthropologist David Graeber (2018) have argued, even more radically, that without the Leviathan state there could be no property rights at all. This argument seems to boil down to a semantic quibble. Kelsen would not use the word "property right" for any claim that is not backed by the power of a state. But the fact is that human communities and markets are much older than the state. Since long before the advent of the state, human beings have been able to peacefully use material goods, to share, give, and exchange them. They have been able to stake their claims against each other and come to terms.

10As Eric Voegelin (1999, pp. 119–20) and others have pointed out, it is also premised on a peculiar anthropological conception of man which leaves room for no love but self-love.

11Saint Augustine (1993, bk. 4, sec. 4, p. 112).

12See Dun ([1983] 2008) and Hoppe (1987; 1993; 2021, chaps. 2 and 8).

13An overview of the abundant literature can be found in Hoppe (2003) and Benson ([1990] 2011).

14He goes on: "If, by the admittance of abandoned men, this evil increases to such a degree that it holds places, fixes abodes, takes possession of cities, and subdues peoples, it assumes the more plainly the name of a kingdom, because the reality is now manifestly conferred on it, not by the removal of covetousness, but by the addition of impunity. Indeed, that was an apt and true reply which was given to Alexander the Great by a pirate who had been seized. For when that king had asked the man what he meant by keeping hostile possession of the sea, he answered with bold pride, 'What thou meanest by seizing the whole earth; but because I do it with a petty ship, I am called a robber, whilst thou who dost it with a great fleet art styled emperor'" (Augustine 1993, bk. 4, sec. 4, pp. 112–13.).

15See Hume ([1777] 1987, pt. 2, chap. 12), Haller ([1820] 1964, vol. 1), and Spooner (1867, 1870).

16It is therefore contradictory when Rousseau ([1762] 1948, p. 129) claims that under the social contract, the life of each "is no longer merely a gift of nature, but a conditional gift of the State." Could one argue that the state *owns* its citizens? But this seems to be contradictory, too. Indeed, how is it possible to make a gift to a being that one owns? The author is indebted to Professor Xavier Martin for bringing this neglected phrase from Rousseau's *Social Contract* to his attention.

17Another important factor that accounts for the widespread confusion between free societies and interventionist regimes is short memory and a lack of education. Many people simply do not remember what the government did ten, five, and even two years ago. As a consequence, when government interventions

produce adverse social and economic effects, they are more often than not held to be the outgrowth of the normal way the economy operates. Rather than cutting back the previous interventions, there are calls for new interventions to rectify the effects of the previous ones.

18See Cornuelle (1965) and also Hayek (1979, chap. 14, pp. 389ff.).

10

The State as a Provider of Gratuitous Goods

Government interventions provide gratuitous goods to the agents of the state and also to other people. Such gratuitous transfers are typically *intended*. They are not just an accidental by-product of taxation and regulation, but the very point of taxing and regulating the citizenry.

This is very clear when we look at the historical origins of modern states. In all cases, political power was originally established by war and conquest.[1] In the typical scenario, a foreign tribe would invade a country and subject the autochthonous population. The members of the victorious tribe then split the territory among themselves, each one turning into a local aristocrat and bequeathing his title and possessions to the oldest son of the next generation. Younger sons would typically join the clergy or set out to conquer other lands. Daughters would be married to foreign aristocrats, typically to those who threatened (or might threaten) the power of their own family.

The very point of conquest is to obtain various economic goods below their market price, if not fully gratuitously, at the expense of unwilling victims. Once a political regime is firmly established, the motivation of the rulers often changes. They are henceforth interested in peaceful social relations, in order to keep the costs of ruling low. They wish their own rule not to be challenged. Established powers therefore typically favor strict respect for the law. However, the desire to uphold the rule of law as a matter of principle does not deter them from seeking various exceptions for their own gratification. This is the nature of legal monopolies, which we shall discuss in more detail below.

But political regimes also need popular support. *All of them* need it, whether royal, monarchical, tyrannical, oligarchical, republican, or democratic.[2] And governments of all sorts have always been aware that

gratuitous goods are likely to endear them to the population. *Weak* governments have never resisted the temptation to use this carrot. The Roman emperors offered bread and games to their proletarians, and virtually all modern democratic regimes do similar things. The lure of gratuitous carrots serves to secure majorities on election day. The biggest carrot ever has been the welfare state. It has grown without interruption throughout the last 150 years, with notable spurts in the 1930s, the 1970s, and in the present day (overview in Merrien 2007).

This being said, we should notice that during the centuries after the collapse of the Roman Empire, and before the advent of modern welfare states, the idea that the government should provide gratuitous goods *to the citizens* did not play much of a role in politics. Government activities were heavily centered on the so-called regalian duties of the state, which corresponded to their regalian prerogatives. The purpose of the military, of the police, and of the state-appointed judges was to protect and preserve the public order. The state fulfilled a public or collective mission. It was oriented toward the common good. But there was no notion of gratuitousness. Regalian duties were discharged within the tit for tat of feudal relations and of social-contract theories.

The same thing held true for non-regalian state activities. The state was supposed to provide goods that were not likely to be produced by private investors. Today such goods are called public goods. Examples are roads, bridges, canals, ports, and other elements of transport infrastructure, as well as higher education. Smith ([1776] 1994, p. 779) famously expressed this idea when he wrote that the state should erect and maintain "those public institutions and those public works, which, though they may be in the highest degree advantageous to a great society, are, however, of such a nature, that the profit could never repay the expense to any individual or small number of individuals, and which it therefore cannot be expected that any individual or small number of individuals should erect or maintain."

Things began to change at the end of the nineteenth century with the advent of the modern welfare state. Initially, the idea that the welfare state should provide *gratuitous* services played a secondary role in politics. The Bismarckian welfare state was by and large a system of mandatory insurance schemes. Employers and employees were obliged to fund public old-age pensions, public health insurance, as well as public insurance against work-related accidents. This was state-imposed social security, but the idea was not to provide something for nothing. It was clear who paid the bills, and the beneficiaries expected to receive overall benefits in proportion to their overall contribution.

However, after World War I, the political objective of providing gratuitous services, especially for the benefit of low-income groups, became ever more important. Governments eventually proceeded to hand out cash subsidies to families and individuals in the context of an outright redistribution of incomes and wealth in the name of equality and solidarity.

Simultaneously, an alternative conception of welfare-state policies slowly raised its head. Its objectives were not collectivistic, but individualistic. Its fountainheads were not Plato or Hobbes, but Rousseau and Mill. They held that the state should not only care for the larger whole by providing public goods, redistributing incomes, and being a provider of last resort. It should also gratuitously enable each and every individual to liberate himself from the fetters of the circumstances into which he was born and in which he found himself. The enabling state, as we may call it, should empower each citizen to reduce his dependence on spouses, parents, children, employers, etc. Everyone should be free to live a life free from unwanted constraints, even the constraints of his biology. In the past thirty years, state-sponsored individualism of this sort has inspired policies all over the Western world, though under different names, such as emancipation, empowerment, or "self-realization," as Hegel and Marx called it.

In what follows, we will first examine how state agents provide gratuitous goods to themselves and to close allies. Then we will study how and to what extent the state may provide gratuitous goods to others. We will conclude this chapter by considering the question of whether and to what extent state agents are likely to act unselfishly.

Legal Monopolies

The very point of political power is to provide the rulers with various economic goods below their market price, if not fully gratuitously, at the expense of unwilling victims. But the latter are likely to resist if the rulers help themselves too generously. This would increase the costs of ruling, thereby annihilating its material advantages for the ruler. It is therefore necessary to balance these two objectives. The solution that has been found in the West is to establish a rule of law with various exceptions.

In other words, the law of the land is not held to be natural law. And the principles of the law are therefore not supposed to be universal rules which are strictly respected. Rather, even the principles apply only generally or unless otherwise stated by law—that is, unless otherwise stated by man-made or statutory law. The rule of law may therefore be plied from time to

time to suit the needs of the rulers—of course, always under the pretext of serving the common good, the nation, the general interest, the environment, and other appropriate justifications. As a consequence, there are next to the common law various special rules or *privileges*. They come in various forms, from tax exemptions to impunity and exclusive rights to pursue certain activities. The most lucrative and well-known form is the *legal monopoly*—the exclusive right to sell certain products, often essential products for which there is a strong demand.[3]

Legal monopolies are an all-out attack on gratuitous goods. They curb other people's ability to use the gratuitous powers of their minds and the gratuitous forces of the natural and man-made resources that they own. The regalian prerogatives of the state hamper those who could very well protect themselves and others. They prevent ordinary people from representing themselves in court, and they lower the quality of jurisprudence and arbitration. State-imposed education systems kill the natural curiosity of children and turn teachers into cogs in a machine (see West [1965] 1994; Blankertz 1989; Tooley 1996). A monopoly on electricity production prevents all other people who also have the knowledge and capital to produce electricity from freely using their talents and material assets. State-imposed health systems hamper the ability of ordinary people to heal themselves and of doctors to apply those remedies that they find appropriate. In our day, state public health systems have been used to prevent people from breathing freely (mask mandates) and to violate the physical integrity of the human body (forced vaccinations).[4]

It is not necessary to go through the endless list of legal monopolies that have come to dominate economic life in the Western world. We do not have to discuss the different theories about their pros and cons. As far as gratuitous goods are concerned, legal monopolies are an unmitigated disaster. They show that government interventions may have not only the pernicious *effect* of but sometimes also the loathsome *intention* to abolish the gratuitousness of various goods and to make owners pay for what they already possess.

Public Goods

Let us now turn to consider the ways in which the state provides gratuitous goods to the population at large. It is appropriate to start with the theory of public goods, which is held in great esteem by present-day economists.

The theory goes back to Smith. The famous Scottish economist

affirmed that the state needs to provide certain goods, rather than leaving their production to private initiative, because their production would not be profitable even "though they may be in the highest degree advantageous to a great society" (Smith [1776] 1994, p. 779). Bridges, roads, and various other goods fall into this category.

The state typically provides public goods within a tit for tat. The citizens pay taxes and in return they benefit from public goods. However, it is not the case that all citizens make equal contributions, and some citizens may not pay anything at all. This is where the theory of gratuitous goods comes into play. The first and fundamental question that is now in front of us is whether public goods *need* to be provided by the state. It is a fact that various goods are advantageous for many people but cannot be produced at a profit. It is also a fact that at least some people will receive such goods for free. However, does this *demonstrate* that these goods should be produced by the government? Is it unreasonable to expect that individuals, clubs, or firms would find no way to produce them? Should they be produced at all?

When it comes to a good that is "in the highest degree advantageous to a great society," there are but two possibilities.

1. The good is really very advantageous to many people, and these advantages might prompt the market participants to find innovative ways to pay for it (for example, a toll station) or to produce that good themselves, on a noncommercial basis. For example, neighboring homeowners living close to the sea might join forces to build a dike (see Bagus 2006). In short, where there is a will, there will be a private way to produce this public good.

2. The good is *not* really that advantageous and, unsurprisingly, nobody cares to produce it. And, in fact, it *should not* be produced at all. Building a bridge would be advantageous, from an economic point of view, only if there were not any other more important project to which one could dedicate the same time and the same material resources which are now being allocated to build the bridge or if the money needed to pay other people to build the bridge could not be better used elsewhere. Saying that the bridge is not really advantageous *means* that other projects are more important. The bridge should therefore not be built.

It follows that government intervention is *not* necessary to produce public goods. Private initiatives are fully sufficient for this mission, at least from a theoretical point of view. And if we turn to economic history, we find this point of view confirmed (see Rothbard [1973] 1994, chap. 11). Many bridges and roads are privately built, privately owned, and privately operated. Monks voluntarily drained swamps and created arable land in

large stretches of western and central Europe in medieval times. These activities were not profitable in monetary terms, but this did not prevent the monks from doing what they considered to be a labor of love. No state intervention was necessary.

In short, public goods not only *can be* but *have been* privately produced on a massive scale. We might even go as far as to assert that Western civilization, insofar as it has been a Christian civilization, has been squarely built on the very ideal of providing public goods through private sacrifice. It goes without saying that Christians of flesh and blood have a hard time living up to this lofty standard. But as an ideal it has always provided guidance. The very symbol of Christianity, the cross, embodies this ideal. Jesus Christ did not arrange to be born into wealth and power. He did not set out to save the world by decrees and armies of bureaucrats. He taught and commanded those who sought his friendship but did not compel anybody. He warned the unwilling but did not coerce them. He produced the greatest public good—the possibility of eternal redemption—at the cost of His own life. His life and teachings have been an uninterrupted testimony to the truth that public goods can—and should be—privately produced.

The Neoclassical Theory of Public Goods

Today, the theory of public goods is taught in a different way. The modern version goes back to the American economist Paul Samuelson. Like Smith, Samuelson holds that private initiative would not provide certain goods because their production would be unprofitable and that, therefore, the state should provide them. But Samuelson sets out to explain *which kinds* of goods are likely to be concerned; namely, goods that have two characteristics: (1) their enjoyment is non-rivalrous and (2) it is not possible to exclude anyone from enjoying them because their benefits come in the form of externalities.[5]

National defense is a case in point. All residents benefit from it, irrespective of the number of residents (non-rivalry) and it is impossible to exclude any resident from the enjoyment of these benefits (non-excludability). If the production of national defense were left to private initiative, Samuelson argues, then there would be a free-rider problem. Some residents would contribute to funding the army or spend their time serving in the army as volunteers in order to be protected. Other residents would make no contribution at all, and they would be protected just as well. Hence, there would be an economic incentive for each and every resident to *not* make any contribution at all. This does not necessarily mean that *nobody*

would make any contribution. But it implies that there would be *fewer* contributions—probably much fewer—as compared to a situation in which people had an incentive to make a contribution. As a consequence, national defense would be underproduced. The country as a whole would lack protective services if the government did not come to the rescue. Indeed, the government has the power to tax the entire population. It can use the proceeds to fund the armed forces. Taxation therefore solves the free-rider problem.

Samuelson is more convincing than Smith. Moreover, his theory fits right into this book. It explains why public goods should be provided without payment; namely, because the benefits that result from them come in the form of side effects. However, his argument is just as untenable as its classical predecessor.6

Notice first of all that, in Samuelson's account, public goods are necessarily non-excludable goods (whereas the non-rivalry condition is secondary). Indeed, if it is possible to *exclude* potential beneficiaries of a good, then it is also possible to make the effective beneficiaries pay. We encountered the question of excludability when dealing with the idea that positive externalities are market failures (see pp. 237ff., above). Thus we know that, *from a technical point of view*, it is almost always possible to exclude potential beneficiaries from enjoying a good. But *economically*, it does not always make sense to exclude them *under current conditions*. Exclusion costs may be too high relative to expected income. But these costs are liable to change under the impact of moral, social, political, and technological factors. Right now (and for the foreseeable future), the costs might be too high to produce the good profitably, but there is no reason why this should always remain so.

Moreover, the presence of exclusion costs is not a specific problem of *public* goods. *All* economic goods are produced with at least some exclusion costs. Bakeries have glass windows, not only to protect from wind and rain, but also to make it more difficult for third parties to grab bread and pastry without payment. Factories have walls and fences for the same reason. In most cases, such exclusion costs are a small or negligible component of total costs. In other cases, that component may be a major one. Different businesses have different cost structures. Retail businesses tend to have a larger marketing component than business-to-business operations. Firms in the service sector spend most of their money on employee compensation, whereas steel producers spend most on equipment and raw materials. There seems to be no reason why any cost component should have the same importance in all trades. There is no reason why exclusion costs should not

be preponderant in certain lines of business. Exclusion costs may very well turn out to be too high relative to expected income, at least under current circumstances. That would not be fundamentally different from other scenarios where certain costs are currently too high relative to income. In all such cases, the business should not be started or continued.

This brings us to the nub of the problem. The modern theory of public goods implicitly *postulates* that exclusion costs are special and warrant special legal or political treatment. In other words, it relies on an arbitrary value judgment, not on a sober assessment of facts. It asserts that the state should tax the population if the exclusion costs in any line of production are too high. But why should the taxman stay home when other cost components become too burdensome? Why should he not tax the population if payroll costs in some business are too high? And why should the state waste resources on *any* good if that good cannot be profitably produced under current conditions? Samuelson and his followers have not answered these questions. Their theory boils down to pleading for legal privileges on behalf of special interests. They assert that since nobody else commits the necessary resources voluntarily, the government should *coerce* some people to provide them, thereby depriving these people of the alternative uses that they had in mind for these resources and which they would have preferred. This means putting the special interests above the common law, above the rules that reconcile diverging private interests.7

To sum up, no good is *inherently* a public good, independent of context. And even those goods that are public goods under present circumstances do not need to be produced by governments. They *can* be produced by individuals and private-law associations, and they *would be* produced privately if they are important enough, for in this case there would be a willingness to sacrifice the necessary resources. If a public good is *not* being produced by any individual or private association, this means that these individuals and associations consider other uses of their time and material resources to be more important. The good's non-production is then *intended* and cannot be considered a market failure.

Collectivist Bias

One might argue that there is a special merit in providing a gratuitous good that is *non-rivalrous*. There can be little doubt that this is an important reason why the theory of public goods enjoys widespread popularity within academic circles. Once the good is there, everybody is likely to benefit, and to benefit gratuitously.

But this argument does not hold water, either. First of all, it relies on

confusing *non-rivalrous* services with *unlimited* services. A standing army might protect all inhabitants of a territory in a nonrivalrous way. Any one resident might then enjoy protection without diminishing the all the others' enjoyment of the same protection. But the protection would still be more or less *limited*, depending on the size of the army, its equipment, its discipline and morals, etc. In order to increase the level of (non-rivalrous) services, it is necessary to increase their production.

Those who argue that there is a special intrinsic merit in nonrivalrous goods are people with a peculiar aesthetic affection for services which are collectively provided to each and all. Most communists fall into that category. But not all people are communists. Providing non-rivalrous goods through government intervention, therefore, caters to special interests.

Public-Goods Theory in Practice: State-Funded Monopolies

It is true that government procurement of non-rivalrous goods would provide gratuitous services, of some sort, to the beneficiaries. It is a very different question whether all people would benefit, for the production of that good is not costless. It involves the renunciation of other goods that could have been enjoyed. If the government finances a public Wi-Fi network, then the taxes needed to pay for the relevant labor and materials are not available to fund the production of *other* goods. Or, what boils down to the same thing, the resources themselves—labor, raw materials, and capital goods—are not available for the production of *other* goods.

Moreover, such policies have unintended consequences that are unlikely to please people with egalitarian attitudes. Production usually takes place under conditions of diminishing physical returns. All individual factors of production are then employed in combination with other factors such that they produce diminishing marginal physical returns as well as decreasing average physical returns (see Rothbard [1962] 1993, chap. 7, pp. 468–75). Any one factor can produce *increasing* physical returns only in the *presence of factors* that produce *negative* physical returns. Now, in a free-market economy, no factors are deliberately employed in such a way that their physical productivity is negative, for the simple reason that nobody likes to waste resources or lose money. Correspondingly, in the long run, there are also no factors that produce *increasing* physical returns.

Things are different when the government provides factors of production that earn negative returns and covers the deficit with taxpayer money. Invariably, *other* factors then earn *increasing returns*. The revenue of the owners of such factors grows out of the ordinary proportion and allows for the creation of large firms and conglomerates. Present-day examples

include Microsoft (benefits from government-sponsored transatlantic cables, urban cables, and internet), Amazon (idem), car makers (benefit from a publicly provided street network), banking (governments use taxpayer money to bail out insolvent banks), and payment systems (benefit from central-bank bailout guarantees). In other words, the application of public-goods theory is likely to pave the way for monopoly businesses. We may call these businesses side-effect legal monopolies, rather than deliberate legal monopolies of the sort that we have discussed.

Charity versus the Welfare State

Present-day governments gratuitously provide numerous goods and services, but next to none of these could be classified as a public good (see Salin 2020, p. 171). Postal services, public schooling, medical services, housing, transport, television, radio, etc., are obviously not public goods, at least not in the sense of the neoclassical economic theory that we just discussed. All of these goods have been privately produced in the past, and all of them could still be produced by private agents. So why are they today provided by the state?

While there are several answers to this question, we should begin with the one that was emphasized by Frédéric Bastiat. He argued that the citizens like to have these goods provided by the government because they hope to obtain something for nothing. The state lives by the great fiction that it provides goods for free. This fiction stands on three legs: ignorance, fear, and wishful thinking.

The citizens typically do not know that there are non-statist alternatives to obtaining housing, medical services, and so on. They do not know that, and why, these alternatives tend to be superior alternatives, both in terms of their costs and of their benefits. They do not know that private charity has covered destitute people; and that the welfare state does not come free, especially not for poor people.

And this ignorance fuels their fears. Because they are ignorant of the non-statist alternatives, they fear that unless the state is there to provide them with various essential goods, the latter will not be available at all, or only at prices that they could not afford.

Of course, when the state is ubiquitous and omnipotent, the citizens are dependent on it. They realize that this dependence could be turned against them. But they do not *wish* this to be so. They therefore disregard the well-known conceit, ambition, and corruption of state leaders. They believe that the latter primarily work for the common good and out of altruistic

motives. And they desire not to offend such virtuous persons by entertaining any critical thoughts about them.

To dispel the great fiction, it is first of all necessary to compare private charity to the workings of the welfare state, the classical "provider of last resort." This is the subject of the following pages.

Private Welfare Organizations

In his magnificent study of the British welfare state, James Bartholomew highlights a few important lessons from its prehistory.[8] He points out that until the early sixteenth century, welfare services to the poor were typically provided by monasteries. But then the monks were expropriated by Henry VIII and the poor become destitute. In order to address this problem, Elizabeth I created the first English welfare state in 1563, by instituting an obligation for affluent people to give to the poor. This obligation was eventually enshrined into the Poor Laws, which were enacted in 1601 and remained the law of the land until the early nineteenth century.

Then something unheard of happened. Bartholomew points out that between the 1830s and the early twentieth century, welfare services in Britain were overwhelmingly provided by *private* organizations. In other words, there was a non-statist interlude between the Poor Laws and the new welfare state. The latter gained steam only after the turn of the century.

This non-statist interlude started with the Chadwick Report. In 1832, the British government commissioned Edwin Chadwick to study the workings of the traditional Poor Laws, which had provided parish-based poor relief in the form of gratuitous housing and gratuitous food. Chadwick expected to find that the Poor Laws reduced the incentives for the beneficiaries to seek employment. He expected them to be a growing burden on local parish budgets. And indeed, this is what he found. But he also gained another insight. He came to understand that the high monetary costs of the traditional welfare system and its negative incidence on the labor supply were just the tip of the iceberg. The greatest problem was its nefarious impact on the character and the morals of the direct and indirect beneficiaries.

The Poor Laws relieved destitute and poorly educated persons from the necessity of *changing themselves* and *becoming* serviceable to others. Learning professional and social skills and exercising self-restraint were discouraged. People who once became dependent on welfare therefore tended to *remain* welfare wards. The unemployed who benefitted from public relief tended to remain unemployed. Welfare benefits for unmarried

mothers increased the number of children born out of wedlock. In short, the system tended to perpetuate and aggravate the very problems it was supposed to relieve. It created a dependence trap.

More than that, the Poor Laws were breeding a culture of corruption and crime. Many beneficiaries used their time to obtain income from illegal activities, such as theft and drug smuggling. Welfare fraud was rampant (multiple relief payments from different parishes) and infected the rest of the economy. Employment subsidies allowed employers to pay less than they would have had to pay otherwise. Housing subsidies allowed landlords to charge more than they would otherwise have obtained. Hence, the subsidies ended up in the pockets of employers and landlords, who thereby were drawn into dependency on the subsidy system.

When the Chadwick Report was published in 1834, it entailed a veritable welfare revolution. The British Parliament enacted a radical reform of the Poor Laws. Henceforth, no taxpayer-funded benefits would be provided outside of the poorhouse, and all payments would be drastically curtailed.

Within a generation, this reform produced the most impressive results. It destroyed the material incentives to seek public assistance and to lead a life on welfare. It gave birth to the Victorian age, a "period in which virtue, duty and work came to be highly esteemed" (Bartholomew 2014, p. 38). But the most surprising result was the emergence of numerous private initiatives and private associations designed for mutual help, and of countless charitable organizations.

Before Lloyd George and Winston Churchill introduced a compulsory national unemployment insurance in the early twentieth century, there were literally thousands of private associations with millions of members—trade unions and private welfare clubs called *Friendly Societies*—which provided material assistance to those who had lost their job or to families which had lost one of the parents. Most of these associations were not formed by wealthy philanthropists but had middle-class and working-class members (pp. 46–48).

Before the advent of the National Health Service after World War II under the auspices of Aneurin Bevan, Britain enjoyed the services of hundreds of privately funded and privately run hospitals (p. 93). These institutions were world leaders in medical innovation, and they treated poor patients at low rates or without payment. As a rule, young doctors would work their mornings at the hospitals without monetary compensation (it was their training ground) and treat paying customers in the afternoons.

In 1880, education became compulsory in Britain, but already twenty

years before, virtually all children were educated in schools run by the churches and charitable organizations. In the words of Edwin G. West (1994, p. 173), the foremost authority on the history of British education:

> When the government made its debut in education in 1833 mainly in the role of a subsidiser it was as if it jumped into the saddle of a horse that was already galloping. The question was: would the new rider improve its speed and if so, could this be done without injury?

It turned out that these premonitions were justified. The horse slowed down and started to trample on various bystanders.

Destructive Welfare

British nineteenth-century private charity had been able to provide an abundance of gratuitous services, yet without replicating the problems that had stymied the Elizabethan welfare state. Why?

Superficially, the two systems seem to be variants of the same gift economy. Private gifts dissociate economic benefits from productive activities. Friends and beggars do not have to pay for the gifts they receive. And so does the interventionist state dissociate payments from benefits. The state does not have to provide any service in exchange for tax money. The beneficiaries of the welfare state do not have to pay upon receiving services. It is true that the interventionist state obtains its resources at the point of a gun. But this may very well appear to be a secondary circumstance that does not affect the gratuitous nature of the goods that are provided and obtained. Or does it?

It turns out that it does. Private charity and the welfare state have completely dissimilar consequences in practice. The reason is that private charity preserves the direct and voluntary bond between donors and donees. Genuine gifts and the side-effect goods discussed in chapter 6 tend to improve the welfare of both the providers and the beneficiaries. Genuine gifts tend to be productive, not necessarily in the sense that they help the beneficiaries to gain monetary income, but in the general sense that they improve the beneficiaries' lives. These gifts are made to embellish the beneficiaries' homes, to comfort them with the idea that other persons love or appreciate them, and so on. In most cases, it is not expected that the gift will be permanently renewed, nor would this be necessary. Most people are capable of taking care of themselves. Whenever they truly *need* gratuitous material support, they usually need it temporarily.[9]

While private charity keeps donors and donees responsible and other regarding, the welfare state makes them indifferent to each other's needs. The frustrated and resentful taxpayer seeks to avoid the unwanted burden as much as possible. The welfare ward is seduced into licentiousness and eventually becomes dependent and despondent. The overall result is a dependence trap on the side of the beneficiaries and the loss of genuine community. Welfare services therefore perpetuate the problems they are supposed to mend. They do not build but destroy. Despondent people are not likely to climb the social ladder. They are not likely to do well in school and lead a healthy lifestyle. In Bartholomew's (2014, p. 340) words:

> The poor are the ones who have ended up with the worst schools and the worst healthcare. The poor now find it much more difficult to see a consultant than sixty years ago. There was no consultant shortage then. The poor, not the rich, have been induced by the welfare state not to save, not to marry and to divorce or separate if they have married. The poor have been similarly led to unemployment. The children of the poor are subsequently more likely to have suffered from broken parenting, more likely to have become alienated and to have turned to crime. Because the poor tend to live amongst each other, they are also more likely to be the victims of the vastly increased crime. The poorest now often live in ghettos, leading lives without hope or dignity.

The root of these problems lies in the moral-hazard problem that we discussed in chapter 3. Government handouts are not genuine gifts. They are legal claims enshrined in the law. And precisely because these subsidies can be claimed as a right—whereas genuine gifts can never be so claimed—they create massive moral-hazard problems, both on the side of the beneficiaries and on the side of the benefactors.

When discussing private charity, we have emphasized the crucial difference between doing good and wishing to do good. It is actually quite difficult to be a good altruist. Throwing money around is usually not the way to go. Handing out all sorts of goodies indiscriminately typically leads to dependence, self-righteousness, laziness, and various other problems. In a private setting, these problems are moderated by the limits of private property. A private donor will wish to make sure that his donation really achieves its purpose, and he can stop funding any projects that are contrary to purpose.

In the context of a welfare state, such limits do not exist. The agents of the welfare state do not have any personal incentive to worry about misappropriations. It is not their money that is at stake, but other people's money. They cannot possibly turn themselves into good altruists. Moreover, the agents of the welfare state have no authority to hold back any services. Because the public services are enshrined in the law, bureaucrats are unable to effectively monitor welfare beneficiaries. They are unable to stop the abusive and parasitical consumption of welfare services if this consumption fulfills the formal requirements of the law. The employee of a private charity could withhold services in such cases, but bureaucrats may not do this. They are not authorized to use their own judgment and their discretion. They must apply the inflexible letter of the law. This is not an unfortunate accident, but a necessary feature of bureaucratic operations under the rule of law (Mises 1944a). It is this very inflexibility, after all, that protects all citizens from the arbitrariness of individual officials. The tragedy of the welfare state is that the very bulwarks that are meant to protect the citizens from official arbitrariness represent a gateway for indifference and abuse.

This holds true irrespective of whether the beneficiaries are affluent or poor. It holds for the welfare protégés, but also for subsidies to the corporate world. The recipients of poor relief and of unemployment relief *know* that the state is there to assist them, but only if they remain poor (or unemployed) and unable to help themselves. They therefore have a perverse incentive to remain poor, incompetent, and without initiative (see Rothbard [1970] 1977, pp. 171–72). Similarly, commercial banks and other financial market players *know* that the government and the central bank are there to bail them out, if they cannot help themselves. They therefore have a material incentive to remain as insolvent and as illiquid as possible, because becoming more solvent and more liquid would only diminish their bottom line.

Such problems can lead to interventionist spirals of the sort that we referred to in chapter 9. When welfare state payments to the poor and to the unemployed lead to an increase in the number of poor and unemployed people, the champions of the welfare state are likely to pinpoint this deterioration as a justification for even higher and more prolonged payouts. When subsidies to commercial banks encourage the latter to reduce their own precautions, so that they become even more fragile, the champions of financial interventionism are likely to highlight this very fragility as a justification for even higher and more prolonged subsidies.

The empirical record of the welfare state is without appeal. The great objectives that have inspired its creation and expansion have not been attained. Quite to the contrary, educational achievements and health conditions have significantly deteriorated, families have been destroyed, retirement funds have been looted, ghettoes have been created, and all of this at an ever-increasing tax bill.

One example among many others is the War on Poverty, which was launched in 1965 as part of President Lyndon Johnson's Great Society Program. Rather than alleviating poverty, it created a new way of life: being on welfare. The professed intention had been to help people who presently could not help themselves. But the effective result was to provide higher-than-market incomes to large groups of persons. This destroyed first their desire and then their ability to integrate themselves into the labor market. John F. Cogan (2017) highlights that welfare payments to single mothers had the perverse effect of making single parenthood a desirable objective for many young women who could not hope to obtain a similar income on the market.[10] The consequence was the destruction of the family in low-income groups and a surge of crime half a generation later. Entire generations of boys who had been raised without fathers turned out to be severely handicapped for the labor market. Many of them then fell for the short-run lures of a criminal existence.

James Bartholomew shows that the failure of the welfare state had been anticipated by the practitioners of private charity, who had wished to prevent the advent of public unemployment relief, public poor relief, public healthcare, and public schooling. This failure has also been abundantly covered by historians, economists, political scientists, sociologists, psychiatrists, and philosophers.[11] But it had been dreaded, too, by several of its most influential champions.

A case in point is William Beveridge. He paved the way for the British social-security system with the widely read Beveridge Report (1942). In it, he recommended the establishment of a national social-security system with the objective of assuring a certain minimal level of income. Yet Beveridge took pains to emphasize that the new system should "not stifle incentive, opportunity, responsibility" (p. 7) and he pointed out various ways by which the welfare services should be limited to a subsistence minimum. Alas, as was to be expected, Beveridge's advice was heeded only for a few years. Beginning in the late 1950s, unemployment benefits soared and so did the unemployment rate, and Beveridge, Pigou, and other erstwhile champions of the welfare state began to distance themselves from the scheme.[12] But it was too late. The system had been created and it now

took care of itself. The British unemployment rate eventually reached a peak in the early 1980s. From there on, it declined, because the Thatcher government remembered that incentives matter.

Social Inclusion

While the welfare state is not needed to take care of the poor, arguably it provides another benefit of an overall or collective nature. It has often been argued that the redistribution of incomes and wealth was necessary and expedient to mend the problems of exclusion and of social cohesion that result from market exchange. Without the welfare state, modern society would be ripped apart.[13]

Now, the fact is that Western societies *have* disintegrated since the 1960s. The rich have become richer and the poor poorer. At the same time, the traditionally large middle class has shrunken dramatically. What is more, the shared cultural background and outlook, which until the 1960s united all citizens of the same ethnic origin irrespective of their incomes and professions, has been lost. As Charles Murray (2012) put it, white Americans have been "coming apart." Many other sociologists and geographers in the US and in Europe have described essentially the same tendencies in painstaking detail (see, for example, Guilluy 2014). We do not need to cover the same ground. But we need to highlight that this decline was fueled by government interventionism, and that further interventionism is likely to reinforce it.[14]

Long-term welfare beneficiaries, by excluding themselves from the workplace community, compromise the spontaneous solidarity of that community. Their vertical covenant with the state supplants and replaces all other horizontal communities arising spontaneously out of the division of labor. The state gives material relief to the unemployed, to single mothers, and to various other groups confronting difficult challenges. But it thereby saps these groups' material incentives for bottom-up social integration. It erodes their personal drive to cultivate attitudes and abilities that facilitate relating to others, from work ethic and honesty to family and religion.

The problems resulting from *monetary* interventionism are of the same type, even though the first impression might be altogether different. Indeed, as we have seen, expansionary monetary policy stimulates the debt economy. A superficial observer might see here a salutary tendency as far as social relations are concerned. More debt seems to be tantamount to greater interdependence between borrowers and debtors. The debt economy may therefore appear to entail "a higher level of socialization and a reduction of individualistic independence of separate households."[15]

However, a closer look reveals that this is not the case. The debt economy springing from the printing press does not result from greater acquaintance with the needs of others or from greater trust in them. It does not reinforce the horizontal social bonds between various debtors and various creditors. Rather, it creates a vertical dependence of all market participants on one central agent—the central bank—on whom they all depend. This is not social inclusion, but social atomization. While the development of market exchange brings about a tissue of organic social bonds, the inflation of *ex nihilo* credit transforms all market participants into homogeneous units stratified around a common center.

The Enabling State

In the past thirty years, the manifest failure of the welfare state in its traditional core activities—unemployment relief, medical services, education, housing, pensions—has led the champions of the welfare state to a shift of emphasis. It has become clear that the welfare state can no longer be defended with the traditional arguments. It has become necessary to rethink and to reinvent it. This has led to the development of new, individualistic conceptions of the state as the provider of gratuitous services.

State-sponsored individualism goes back to Rousseau and has been developed by Wilhelm von Humboldt, Mill, and Proudhon. The young Marx, too, praised Hegelian self-realization (*Selbstverwirklichung*) as a political ideal. The fundamental mission of the enabling state is to empower each individual to develop and use his personal talents as far as possible. This necessitates that the individual receive a basic income and that he be shielded from social pressures of all sorts.

According to Mill (1859), the state should promote freedom of choice for individuals by removing some of the stones of life from their path. In particular, the state should liberate them from some of the constraints and oppressive forces of their social environment. Mill's followers have developed this approach with great relish. His most extreme disciples today understand "constraints" and "oppression" to mean anything that restricts human arbitrariness—anything that could prevent individuals from doing what they would like to do or from being what they would like to be. Oppression arises not only from laws, taxes, and personal economic circumstances. It also originates from authorities such as the church, fathers, mothers, and CEOs. It shows up in border fences and walls. In extreme form, it shows itself in the circumstances of one's own identity.

Your own gender and your own body should also be freely selectable, and the state should also help the individual with this free choice.

Eight decades after Mill, his countryman C. S. Lewis gave some thought to the implications of such liberty. In the opening pages of *The Great Divorce*, he portrays a "grey city" removed from planet Earth in which all residents enjoy complete material emancipation, as under a perfect enabling state. The city extends day by day because it is costless for all newcomers to build new houses. They just need to *imagine* their houses and then they pop up on the outskirts of the existing settlements. The grey city thereby turns into an infinite suburbia. One of the residents explains to the storyteller, who has just arrived:

> What's the trouble about this place? Not that people are quarrelsome—that's only human nature and was always the same even on Earth. The trouble is they have no Needs. You get everything you want (not very good quality, of course) by just imagining it. That's why it never costs any trouble to move to another street or build another house. In other words, there's no proper economic basis for any community life. If they needed real shops, chaps would have to stay near where the real shops were. If they needed real houses they'd have to stay near where builders were. It's scarcity that enables a society to exist. (Lewis 1945, p. 13)

As the story unfolds, the storyteller comes to realize that the grey city is the lower level of purgatory. It is a part of pre-hell. It is a place full of egomaniacs who avoid one another because they can. They are enabled to remain in the prison of their self, and most of them are eager to stay there and to wither away.

Even when it is not yet fully developed, the enabling state destroys individual responsibility and infantilizes the population. It saps the economic incentives to form social bonds of any kind, professional, public, or private. It weakens families, clubs, firms, and ultimately the state itself. It promotes egoism on a grand scale and dents the virtues. It facilitates excesses of all sorts, because it destroys the necessity to *balance* all aspects of human existence. When applied massively and over several generations, it is likely to create armies of narcissistic and unhinged solitaries who are unable to lead their lives without support.[16] In short, state-sponsored individualism is an all-out program of destruction. It not only afflicts the social dimension of human existence, but also cripples the individual

human soul.

Much has been written about the idea of a universal basic income, which is one of the chief instruments of the enabling state (see Jouvenel 1952; Blankertz 2001; Sammeroff 2019; Bidadanure 2019). We will therefore not cover these grounds again and rather focus on two financial instruments which have the same inspiration: gratuitous credits and negative interest rates. Let us discuss them in turn.

Gratuitous Credit

According to a proposal that goes back to Proudhon, a socialist writer of the nineteenth century, the state should provide gratuitous credit. Fiat money can be produced without any physical or commercial limitation. It is not *per se* scarce in any meaningful sense of the word and therefore *can* be lent free of charge. Since the government has the power to create a bank that issues fiat money, it *should* create such a bank and provide gratuitous loans to everybody. All citizens would thereby be enabled to pursue their personal projects. The printing press would be an instrument of individual liberation.

Proudhon's argument was famously contested by his contemporary Bastiat. The two of them exchanged a series of public letters, and Bastiat (1850) eventually published this correspondence in a booklet under the title *Gratuité du crédit* (Gratuitous credit).

Bastiat focuses on the question of whether it is legitimate to ask the debtor to pay back the credit *and interest*. He answers this question affirmatively, arguing that the price of credit plays an important social role. Interest compensates the savers and encourages the formation of capital. As a consequence, capital becomes more abundant and its remuneration (interest) is therefore bound to diminish. Furthermore, all wages are paid out of monetary capital. The stimulation of savings at ever-smaller prices therefore turns out to be highly beneficial, not only for the capitalists, but also for the working classes. It promotes the harmony of interests between saver-capitalists on the one hand and wage earners on the other hand.

With respect to Proudhon's idea of gratuitous credit for all, Bastiat objects that the entire idea is based on a confusion between money and real wealth. The Proudhonian bank would be free to issue as many notes as it liked, but these notes could only be exchanged for the economic goods that exist. Doubling the amount of credit would not double the amount of goods that could be bought by the creditors. It is therefore not true that gratuitous credit would be an instrument of individual liberation or emancipation. It would be impossible for *all* people to realize their personal

projects.

Furthermore, the Proudhonian bank would quickly face a stark choice: either it would have to give in to *all* demands for free loans, in which case it would have to massively increase the money stock, with a corresponding loss of its value; or it would have to *ration* the credit supply, which means that interest would make a comeback, in one way or another.

Last but not least, Bastiat points out that the system would bring about the exact opposite of the proposed objectives. Proudhon imagined his system would liberate the working classes from dependence on capitalists and reduce the inequality of wealth. But this is not likely to happen. Bankers would prefer to do business with wealthy persons because the latter can *pledge collateral to secure their loans*, whereas credit would be denied to poorer persons, who have no wealth to pledge. It would not help wage earners if the interest rate were zero. Without collateral, they could not expect to be funded at all. The system would therefore not only perpetuate but aggravate the inequality of wealth.

At the beginning of the twentieth century, Mises added another argument to Bastiat's rebuttal of gratuitous credit. He showed that credit out of thin air was likely to entail widespread investment errors. Cheap credit would bring about a short-lived boom that would end in a valley of tears. We will present his theory in more detail in chapter 11.

Negative Interest Rates

The Proudhon-Bastiat debate anticipated the international monetary and financial system at the beginning of the twenty-first century. Gratuitous credit has finally made it from the conceptual stage to become a social reality. Arguably, it has surpassed Proudhon's wildest hopes. Central banks all over the world have lent at *negative* interest rates, especially to OECD governments.

Unfortunately, however, Bastiat's apprehensions turned out to be right. The brave new fiat-money world has not brought about a new era of emancipation and equality. While interest rates are low and even negative, the inequality of wealth is skyrocketing. At the same time, overall real wealth is in decline.

The reasons for which negative interest rates have appeared are very different from the motivations undergirding Proudhon's plan. Today's negative interest rates are not meant to emancipate the working classes. They are just a very suitable technique for central banks to achieve their objectives.

Present-day central banks pursue two main objectives: stabilizing the

price-inflation rate and boosting the level of monetary spending, or, in their current jargon, increasing aggregate demand. Both objectives require that central banks bring ever more money into circulation. But here they face an obstacle. The only way they can increase the money supply is by *lending* more money. This means that they cannot increase the money supply by unilateral decisions. They need borrowers who are willing to take out additional loans. Traditionally, central banks have stimulated the demand for credit by reducing their lending rate. Negative interest rates are fully in line with this. What is unusual is that they are negative. And indeed, this is a big problem, as we shall see.

Central banks can lend even if they do not expect to be reimbursed. This is why they can invert the normal relationship between debtor and creditor. Normally it is the debtor who rewards the creditor for temporarily sharing his savings, for savings are scarce and require the sacrifice of current consumption. But if the creditor can obtain virtually unlimited quantities of new money gratuitously from the printing press, he may renounce any compensation. He may even proceed to *reward* the debtor, for example, lending him one hundred dollars and asking him to pay back ninety-eight. The credit relationship then turns into a source of revenue for the debtor. For him, being in debt is no longer a liability but an asset. Most western governments have been in this happy situation from 2014 through 2021.

Let us emphasize that negative interest rates are premised on fiat money. Creditors normally do not wish to pay their debtors. They expect debtors to reward *them*. Only an institution that can create money gratuitously *and at the same time* force all others to use this money has the possibility to lend at negative rates.

What, then, are the adverse effects of this policy? Negative rates seem to be a boon rather than a bane for the economy. Where is the problem when governments—and potentially everybody—may obtain free loans or even be *paid* to sign a loan contract? Clearly, there is no immediate problem as far as these beneficiaries are concerned. But negative interest rates are a formidable economic problem for the economy as a whole. They are not a microeconomic problem, but a macroeconomic one.

The very purpose of any economic activity is to transform man's environment—both the natural and the social environment—in such a way as to improve its value. Man works to plant wheat fields, then harvest them and turn the wheat into bread. The reason is that wheat in the form of bread is for him more valuable than wheat on the stalk. And the same motivation comes into play when he establishes a company to produce bread for the market. He hires farmers, salesmen, accountants, and many

others whom he directs to cooperate to produce and sell bread. In all cases, he transforms things that all together have less value into other things that all together have more value. Value creation is the essence of the human economy. Without it, mankind could not survive.

In a market economy, value creation shows up most notably in a positive return on capital. A person who earns profits or interest is a person who has used savings to transform something of less value into something of more value. More precisely, he has created value for *other* people. He has bought factors of production that others could have bought as well and transformed them into products that others appreciate more than those factors of production.

This brings us to understand that negative interest rates are an economic absurdity. They allow the funding of human activities that do not contribute to value creation, and they even remunerate activities that destroy value. An economy running on negative returns on capital is an economy that *pays* people to destroy its collective substance. It is an economy that rewards capital consumption for its own sake. It is an economy in which some people get rich by razing the foundations of future collective prosperity. Such an economy is not on a growth path, but on a road to misery.

In other words, negative interest rates create massive rationality traps. They induce the beneficiaries to use scarce resources in the pursuit of their own pet projects without consideration for the preservation of the capital stock and without consideration for the needs of other people. Under negative interest rates, objectively bad behavior is turned into good behavior, at least in the short run. Conversely, a prudent investor becomes a bad investor, at least in the short run, since he will not invest at the inflated prices that result from the profligate spending of the beneficiaries of negative interest rates.

This inversion of values is one of the characteristic features of the enabling state. Whether through universal basic income, gratuitous credit, or negative interest rates, in all cases the seemingly gratuitous liberation of the beneficiaries entails devastating effects on their environment and on themselves. State-sponsored individualism is an all-out program of destruction, much more so than the traditional welfare state, which "merely" destroyed the lives of low-income families.

Fiscal Illusions

So far, we have highlighted the adverse consequences that result from

the welfare state and from the enabling state. From an overall point of view, one obtains very bad deals by putting the state in charge of poor relief, unemployment relief, housing, medical care, loans, and just about anything. In that sense, without a doubt, the state *is* the great fiction denounced by Bastiat.

However, one could argue that the state might still be the only institution that delivers *gratuitous* services to those who are most in need of them. The deal may be bad from an overall point of view, but for the downtrodden and the destitute, this is of no concern as long as others pay the bill.

We should therefore look at this more closely, with special emphasis on the situation of the very poor. This can best be done by reconsidering private charity. As David Green, Bartholomew, and others have shown, private charity *has always* provided unpaid services to the poor, and it does so to the present day. There has never been any genuine *need* for the state to step in and help those who are unable to help themselves.

Another way to go about the same question is to consider how much the very poor actually *do* pay, directly or indirectly, when they become wards of the state. Economic analysis shows that they may pay a lot. Even for them, the gratuitous services of the state may very well be an illusion—a fiscal illusion, as the Italian economist Amilcare Puviani ([1903] 1960) called it.

At the turn of the twentieth century, Puviani studied the various ways by which politicians dissimulate and obfuscate the true costs of taxation and government handouts. Fiscal illusions in Puviani's sense concern not only the overall costs of government, but also, and especially, the costs for each taxpayer individually.

From a politician's point of view, it would be ideal if each voter had the impression that he receives something for free.[17] In a market economy, the connection between goods received and costs paid is made patent by exchange. Government interventions modify the causal chain, and fiscal illusions make it next to impossible to ascertain with any degree of exactitude how much each person effectively pays.

Puviani discusses most notably the following techniques of fiscal illusion: indirect taxation (sales taxes, value-added taxes [VAT], etc.); funding the state with the printing press; funding the state through the credit market rather than through outright taxation; taxing luxury goods; introducing new taxes on a "temporary basis" and then making them permanent; taxing "despicable" goods (gas, meat, cigarettes, alcohol) and "despicable" persons (Jews, Germans, whites, Chinese, Russians);

justifying tax increases with looming mayhem (financial crisis, public health crisis); prorating tax payments rather than demanding lump-sum payments; creating taxes the incidence of which is not quite clear (profit taxes, corporate taxes); using complicated terminology and complicated classifications when setting up the government budget; using shadow budgets for public expenditures; and displaying general items in the main presentation of the government budget while hiding the dirt in the footnotes.

In what follows, let us take a closer look at two items in Puviani's list: shadow budgets and taxes with unknown incidence. Notice that both of these techniques concern *monetary* payments. In our day, a more ancient technique of fiscal obfuscation has made a comeback. It is called *forced labor*. Citizens are forced to perform various gratuitous activities for and on behalf of the state. This comes in the form of compulsory military service, but also in the form of doing paperwork (submitting forms and reports), complying with government-imposed procedures, and acting as a fiscal agent for the state (withholding income from employees and shareholders).

Shadow Budgets and Fake NGOs

As we have seen, Puviani underscored the importance of shadow budgets in hiding public expenditure. This technique of fiscal obfuscation also plays a great role in our time, especially in regard to welfare services and other gratuitous goods.

Government shadow budgets are hidden in statistical records through the *misclassification* of various activities and organizations. For example, government-sponsored enterprises (GSEs), such as railroad companies, airline companies, and central banks, are often classified as private entities, even though the state exercises substantial control over them. State control does not necessarily mean that the state is a shareholder in these organizations at all. Very often it means that the state controls the legal and regulatory environment in which these organizations have to operate.

The same thing can be said about the misclassification of GSEs and government-sponsored organizations (GSOs) as nongovernmental organizations (NGOs). State agents very often wish their projects to be executed by parties that appear to be independent from the state. Sometimes the state wishes to obfuscate its intentions. At other times it wishes to evade its own rules. It then commissions private organizations or sets up organizations under the mantle of private law. These private firms or private clubs enter a bargain with the state, usually overtly but sometimes in a hidden way. They perform a variety of activities that the government may

not legally perform or which the government could perform only at a much higher monetary or political cost. For example, commercial banks execute a number of central-bank-sponsored missions on commodity markets or on stock markets, private companies spy on their suppliers or customers on behalf of the government, etc.

As a consequence, today there are entire armies of ostensibly nongovernmental organizations that are largely and sometimes exclusively controlled by the state. They are fake NGOs. Materially, they are state organizations. They do the work of the welfare state, of diplomats, of armies, and of secret services, yet they do not show up as GSEs or GSOs in the official statistics. Needless to say, this is a great nuisance for empirical research that seeks to quantify the importance of nonmarket and non-state human activities. But it confirms our previous contention that the juridical form of an organization does not say much about its true nature (see pp. 164f.).

The Incidence of Taxation

The services dispensed by the welfare state or by the enabling state may be gratuitous for their beneficiaries insofar as the latter are not required to pay for them *directly*. But this does not mean that they do not pay for them at all. They may very well pay for them *indirectly*. To be sure, the beneficiaries typically *hope* not to pay anything or to pay less than they would have to pay on the market. But they may ignore the indirect ways in which they are likely to pay the full amount anyway, or even more. Let us illustrate this with a hypothetical example.

Peter likes the idea that other people should pay for his medical bills, or at least a part of them. He votes for a party that is going to establish a tax-funded public healthcare system. John pays more taxes than Peter, so Peter thinks that part of his medical bills are paid by John. But this happy thought may very well be an illusion. Indeed, John may also be Peter's customer or his boss. Taxation may force John to cut his spending, and he may very well spend less on Peter. In this case, while Peter does not *directly* pay for his medical bills, he may very well end up paying for them *indirectly* —in part or in full. He may even pay *more* for them than he would have paid if the public health system had not been established. The problem is that it is quite impossible to know how much he pays exactly.

Economists call this the problem of the incidence of taxation. One reason why the welfare state is so popular is that this problem is more often than not neglected. Most people never consider that even though they are direct beneficiaries of government benefits, they might very well pay for

these benefits in other ways. Professor Pascal Salin (2020), argues that taxation is by its very nature tyrannical because nobody really knows—and nobody really *can* know— just how much he pays for the services provided by the state.

The Logic of Political Democracy

The modern welfare state has failed in its most popular objective. It has not reduced economic inequalities. It has not helped the poor at the expense of the rich. Quite to the contrary, it has *reinforced* their differences. What is more, it has brought about a redistribution of incomes and wealth *from the poor to the rich*. And it has cloaked this redistribution with the mantle of fiscal illusions.

Can this reality be changed with new resolve and better politics? Economic analysis gives a sobering verdict. The failure of the welfare state to reduce economic inequalities *is to be expected*. It is not an accident, but the natural tendency of modern democratic systems. By the very logic of modern electoral politics, the welfare state is not likely to help the poor. It is likely to impoverish them further.

Fifty years ago, Gordon Tullock demonstrated that a democracy is unlikely to deliver any egalitarian results. The reason is that the poor are by definition not a majority. They are just one part of the population, and they need to form political alliances with people from the middle or upper income brackets to create a majority. But there is no reason why the poor should be especially attractive coalition partners for the rich or for middle-income earners. Even if they form a coalition with low middle-income earners, they are not likely to be the main beneficiaries (see Tullock 1971, p. 382). He concludes:

> There can be no doubt whatsoever that massive redistributions of income do occur by way of the political process. These redistributions, however, are not in the main transfers of funds from the wealthy to the poor, but transfers of funds among the middle-class. The bulk of these transfers come from people who lie between the twentieth and the ninetieth percentile of income, and the bulk of them go to the same income classes. This is, of course, the area with the largest taxable capacity, and also the area where political power is concentrated in a democracy. (Tullock 1971, pp. 384–85)

He goes on:

> These transfers do not meet any egalitarian criteria. Basically they are transfers from groups of people who, for one reason or another, are not politically powerful to people who are. (p. 385)

We see here why state-sponsored welfare programs have tended to be completely ineffective as far as the reduction of income inequality is concerned. Within democratic regimes, government spending has the objective of bribing a majority of potential voters, and that majority is to be found in the middle class, not in the low-income minority.

Other authors have confirmed these conclusions based on their own empirical research. Mark Hughes concluded his study of the post-World War II welfare state in Canada with these words:

> It is the nature of the democratic political process that forced income redistribution will work against the interest of the poor. This fact supersedes attempts to implement strict means testing and greater system efficiency in welfare programs; they are ultimately rendered fruitless. It is reasonable to conclude that the poor would be much better off under a system of voluntary charity than they ever will be under a democratic welfare state. (Hughes 1991, p. 20)

Twenty-six years later, John F. Cogan observed exactly the same state of affairs in the US:

> In 2015, 62 percent of [welfare] recipient households, encompassing over 100 million U.S. residents, had incomes that were above the poverty line prior to the receipt of assistance. Thirty-one percent, nearly 60 million persons, were in the upper half of the U.S. income distribution. (Cogan 2017, p. 381)

Inside and outside of academia, these facts are widely known. Sometimes they are conveniently forgotten in exercises of state glorification. Welfare checks are not written by people with generous hearts. They usually are hidden prices, designed to bribe the population into complacency and apathy. The impotence of the welfare state to achieve its core mission—helping those who cannot help themselves—is not mysterious from the point of view of economics.

Selfless State Agents

If the welfare state is a bad deal, especially for those who cannot help themselves, then why is it so perennial? Is it a *pure* fiction? Or does serve at least *some* people? And if so, who are they?

The Welfare State Serves Its Servants

Among the main beneficiaries of the welfare state are the welfare intermediaries and, more generally, the agents of the state. The state fills the pockets and bank accounts of the millions of civil servants and consultants running its offices and administrations. This is sometimes called the poverty industrial complex.[18] In Cogan's (2017, p. 207) words:

> The main beneficiaries were the service providers, mainly middle-class professional social workers in and outside government welfare agencies, educators in schools of social work, legal services lawyers, and academicians. The federal government was spending more on professional social workers than on school lunches for poor children.

This has been so right from the inception of the welfare state. Its real beneficiaries have always been different from the professed ones. As the welfare state grew and developed over many decades, this problem increased. Welfare programs were increasingly perverted into bribing the middle-class majority rather than helping the poor, as we have already seen.

The personal perception of these beneficiaries may be very different. As they see it, they work long hours at lousy pay. And there is much truth in this contention if we think, for example, of frontline welfare agents and nurses in public hospitals. Indeed, in the long run, *both welfare clients and frontline welfare intermediaries are likely to be entrapped in a spiral of dependence and impoverishment*. The poor may benefit at first, but at the price of losing the willingness and ability to integrate themselves into the labor market. Similarly, frontline welfare agents may benefit when their administrations are *created* (then they are typically paid well, sometimes excessively well), only to find out that they may eventually become the victims of changing political priorities. When other topics come to dominate the electoral cycle, political leaders are likely to reshuffle state budgets. They then come to see their numerous frontline helpers as a financial burden. They no longer adjust their monetary compensation to the permanently rising price level. Mid-career nurses, teachers, and social workers are then trapped. Their real incomes lag behind the rise of the price level. At the same time, they have become unemployable—or difficult to

employ—in the private sector. There is tragedy in these circumstances. Frontline welfare agents are very often motivated by the genuine desire to help others. But a long professional life full of disillusion is likely to wear down the initial enthusiasm. The spiral of dependency and impoverishment that we just described very often does the rest.

Things are different in regard to political leaders and the upper echelons of the welfare administrations. For them, the welfare state is a permanent source of income and power. It serves them as a carrot to lure voters and followers, as an engine of compliance and subservience.

Selflessness as an Ideal for Public Office

The problem that we just discussed has been known since antiquity. Can it be overcome by virtuous leaders? Can it be alleviated by selflessness?

In chapter 5, we argued that the development of a market economy presupposes virtues and that virtues need to be cultivated for their own sake. The market economy thrives only when a critical mass of people behaves, at least some of the time, selflessly, by cultivating the virtues for their own sake.

But this also holds true for the state. Its leading agents are constantly tempted to be selfish, and more often than not, they give in to this temptation. They break faith, lie, steal, rob, kill, and cheat in the pursuit of their own personal goals (see, for example, Jauvert 2021). Arguably, this temptation is even greater than in the private sector, because upper-level state agents are often in the lucky position of being judged by their colleagues and therefore open for tit for tat of various sorts.

This is the reason why political philosophers such as Plato and Aristotle, and all other people who have reflected on the proper organization of the state, have emphasized the necessity of selfless behavior on the part of persons with political responsibility.

Classical Greek philosophers famously held that the true calling of a free man, of a citizen, was to partake in the management of the affairs of the political community, and to do so without compensation. To discharge a public office selflessly requires that this activity be carried out without pay or compensation, lest there be conflicts of interest. Officeholders in Athens and other Greek states in antiquity were therefore typically not paid. They were supposed to contribute their time and money gratuitously to the commonwealth. In later times, too, this conception of public office was often an ideal, and for the very practical reasons that we have just mentioned, it has remained so until the present day. Even today, local political organizations are called "municipalities," a word that stems from

the Latin noun *munus*, meaning both gift and public office.

As an ideal, this conception has much to commend it. But it is also necessary to consider its significant shortcomings. Unpaid public office does not attract persons who are mainly—or exclusively—motivated by monetary reward. This can indeed be a crucial advantage, especially in life-or-death situations when the right cause is not supported by power or income or wealth. The officeholder who is motivated by the desire to serve his countrymen will not be easily corrupted. He has the right attitude to withstand the temptations of wealth and the lure of power. However, such an attitude is relevant *only* in life-or-death situations, which require ultimate leadership.[19] In ordinary situations, when power and wealth can be aligned with the common good, it is much less important. In ordinary situations, the common good is not necessarily best served by the people willing to promote (their idea of) the common good. Rather, the country will be best served by the most competent executives. Administrative skills will not always be found in persons who excel through their moral disposition and who therefore seek public office without compensation. But it is possible to attract the best technical talent to public office by providing sufficient remuneration. There is in this regard not the slightest difference between public office and various vital occupations in the private sector. For example, in most Western countries there is great intellectual talent and skill available for medical services precisely because such services are very well paid.

A government could be run by voluntary parliamentarians and officeholders only if this government were extremely small, as in a minimal state of the classical-liberal sort. As soon as government embarks on running more or less complex public administrations, it must rely not just on goodwill, but on technical competence. And the way to get such technical skills in a society based on the division of labor is through adequate remuneration.[20]

Officeholders Are Typically Not Selfless

In ancient Greece, the motivation to serve gratuitously in public office was not usually prompted by an altruistic love for one's country or for one's fellow citizens. It was driven by robust self-interest. It was the pastime of the privileged few, who profited from the forced labor of the many. The freemen—the citizens—could consecrate their time and energy to public affairs. They could afford to do this without exacting any sort of remuneration because they had slaves to provide for them.

Republican officeholders sought to enrich themselves even though they

were not openly and officially remunerated (see Jhering 1893, pp. 109–10). They sought public office to abuse their position of power when it came to handling conflicts over trade and land that involved them or their families. They sought to persecute competitors or rival families. They corrupted the voting process by making payments to a clientele of destitute citizens in exchange for votes.[21]

Officeholders sought to preserve and promote the welfare of their own families. They could not risk abusing their position overly much because they would have reprisals to fear when the office changed hands. They were personally responsible, not in the abstract and vacuous sense in which modern politicians and civil servants are *said* to be responsible, but in a very tangible and material way. Wrong or abusive decisions in public office were likely to entail retaliation.

This was one of the reasons why public office in ancient Greece was often allotted by lottery.[22] Again, whatever the merits of this approach, it is unsuitable under modern conditions. The modern interventionist state is not a small state of the ancient Greek sort, and for perfectly intelligible reasons. It needs thousands of specialized professionals to invent, design, implement, and run the innumerable systems by which the government intervenes in the lives of the citizens (see Gottfried 2001). It could not possibly survive or thrive if it had to rely on volunteers who contributed their services gratuitously.

Today, outright selfish behavior among the servants of the state is not the exception, but the rule. The men and women who make it to the executive level of public administrations or into government office are subject to fierce competition, just like professionals in the private sector. In modern democracies, their positions are actually *less* secure than those of private-sector leaders. Entrepreneurs *own* their firms, but politicians and civil servants do not own their offices.[23] The latter therefore have very strong incentives to use all means available to fend off any rivals and to reinforce their own positions. Rather than giving money away without expecting anything in return, they funnel public money to the people who are likely to support them—most notably to vote for them—and they make sure that everyone knows that they did it.

The self-interest of government agents is sometimes transfigured into selflessness. Working for the government or holding a public office is occasionally presented as some sort of a Maussian gift swap—or as something else that does not quite sound like "exchange" and which would therefore insinuate premeditated payments for definite services. Some civil servants consider that working for the government is no ordinary job, but a

calling, a self-sacrifice to a higher cause.[24] They do not serve *in order to* be paid. As they see it, they serve selflessly and then it fortunately so happens that the government has enough propriety to give them a decent amount of money.

It is true—and also good and praiseworthy—that many people who work for the state do so out of conviction that they serve a higher cause. It may even be true that some of them follow this calling against their material self-interest. However, this lofty attitude is certainly not shared by all. Like the employees of the private sector, civil servants are well aware of the material benefits that come with their position, and most are inclined to defend these advantages vigorously, to the detriment of the taxpayers. The fact is that public administrations all over the world suffer from particularly high rates of absenteeism and often provide lavish retirement benefits at taxpayer expenses.

Moreover, it must be pointed out that private-sector employees too may have, and often do have, an elevated sense of their professional mission. And indeed, why should a baker or a shoemaker or an entrepreneur or a farmer entertain less lofty views of their own calling than a tax inspector or a townhall secretary or a prime minister?

1See Hume ([1777] 1987, pt. 2, chap. 12), Thierry ([1825] 1856), Spencer (1898, vol. 2, chaps. 4 and 17), Oppenheimer ([1907] 1990), and Rothbard (1965).

2See Aquinas (1949, bk. 1, chaps. 4 and 6), La Boétie ([1576] 1993), and Hume ([1777] 1987, pt. 1, chap. 4).

3*State monopolies* in the fields of protection, adjudication, money, transport, education, energy, etc., are particular forms of legal monopolies.

4The ambition to thoroughly transform man and society with the help of compulsory medical treatments goes back to the French revolutionaries of the eighteenth century. See the very well documented studies of Xavier Martin (2008, 2013). On the political dimensions of the 2020 coronavirus crisis, see the overview in Earle (2020) and the brilliant discussion by Esfeld (2023).

5Samuelson (1958) highlighted the crucial role of positive externalities. In previous work on public expenditure (Samuelson 1954, 1955), he had defined public goods and their suboptimal production on the free market, but not in connection with externalities.

6Ronald Coase (1974) refuted one of the standard examples: lighthouses are not public goods and have been privately built in the past. Block (1983, pp. 11ff.) and Hoppe (1987, pp. 23–24; 1989, chap. 10; 1993, chap. 1) have demolished the theoretical case for public goods. See also Bagus (2006).

7In other words, the theory of public goods, in a similar way to the theory of positive externalities, which we discussed in chapter 7, relies on perfectly arbitrary value judgments or norms, rather than an assessment of empirical facts. Hans-Hermann Hoppe points out: "The norm required to reach the above conclusion is this: whenever one can somehow prove that the production of a particular good or service has a positive effect on someone else but would not be produced at all or would not be produced in a definite quantity or quality unless certain people participated in its financing, then the use of aggressive violence against these persons is allowed, either directly or indirectly with the help of the state, and these persons may be forced to share in the necessary financial burden. It does not need much comment to show that chaos would result from implementing this rule, as it amounts to saying that anyone can attack anyone else whenever he feels like it." And he adds that "this norm could never be justified as a fair norm" (Hoppe [1993] 2006, pp. 12–13).

8See Bartholomew (2014, pp. 32 ff.). See also Schweinitz (1943) and Seldon (1996). On the French welfare state, see Padioleau (1982). On the German case, see Habermann ([1994] 2013).

9We should also duly note that being deprived of something is not necessarily unbecoming, but may be an important stimulus for human progress. Hermits and monks deliberately choose material poverty in order to facilitate the realization of their spiritual and moral objectives. But poverty may also be a driving force of material progress, precisely in those cases in which it is suffered rather than desired. See Leontjeva, Vainė, and Vyšniauskaitė (2016).

10This was most notably true of the Aid to Families with Dependent Children (AFDC) program, especially for families with an unemployed parent (under the AFDC for Unemployed Parents Nationwide [AFDC-UP]).

11Besides Bartholomew (2014), see, for example, Mises ([1949] 1998, chap. 35), Jouvenel ([1952] 1990), Clark (1954), Cornuelle (1965), West ([1965] 1994), Rothbard ([1970] 1977), Burleigh (1973), Murray (1984, 2012), Blankertz (1989), Green (1993), Habermann ([1994] 2013), Tooley (1996), Dalrymple (2003, 2005), and Rhonheimer (2018).

12In the 1950s, Wilhelm Röpke ([1951, 1957] 1977, pp. 69–70) pointed out that Beveridge and Pigou had turned against the welfare state in various public pronouncements.

13See, for example, Lefebvre and Pestiau (2017). This line of argument goes back to Durkheim ([1893] 2013) and is possibly even older. As we have seen in discussing the views of Marcel Mauss, it is most notably motivated by the conviction that free markets are amoral or immoral.

14The next three paragraphs are adapted from Hülsmann (2018).

15Knies (1879, pp. 174, 170). The full passage reads in the original: "Darum *stellt der Creditverkehr eine höhere Stufe der 'Vergesellschaftung' und eine Verminderung der*

individualistischen Verselbständigung der Einzelnhaushaltungen her. Die in die Zukunft verlegte Gabe des Schuldners und der in die Zukunft hinein andauernde Gebrauch der Vermögenstheile des Gläubigers durch eine andere Person verknüpft andauernd das wirtschaftliche Schicksal der Gläubiger mit dem persönlichen Thun und Erlebniss der Schuldner" (emphasis original).

16 In the short run, these destructive tendencies may be dampened by traditions and habits. The permissiveness of an emerging enabling state may also compensate for older traditions of coercive collectivism, and the overall result may then resemble some sort of healthy normality. An example is present-day Sweden. For a sympathetic presentation of the new "Nordic way" of "radical individualism," see Berggren and Trägårdh ([2006] 2016, 2011).

17 "Politicians have obviously an interest in offering well noticeable benefits to voters. In return, they must try to minimize the loss of votes due to the displeasure of taxpayers obliged to pay for state goods. Therefore, they have an interest either in concentrating taxes on a very small number of taxpayers, or instead diluting the tax across a very large number of taxpayers in the most painless way possible" (Salin 2020, p. 174).

18 In the case of international government aid programs, this effect is especially clear and well-known. The main beneficiaries have been government leaders and administrative agents in the donor countries and the recipient countries. While the taxpayers have been looted, the large population in the developing countries has come off worse than it would have without the international welfare state. On the poverty industrial complex, see Hazlitt (1973), Vaubel (1986), Ayittey (1991), Bauer (2000), Hatcher (2016), and the Acton Institute's documentary film *Poverty, Inc.*

19 We should add that ultimate leadership is greatly facilitated by ownership. Owners are natural leaders because they do not suffer from conflicts of interest. Employees are good leaders only in exceptional cases. Great virtues must overcome the temptations of the hired hand. The biblical parable of the good shepherd expounds this problem.

20 Weber (1922, p. 661) points out that despite being remunerated, bureaucratic labor is often cheaper than the work of voluntary amateur officials. On the historical emergence of professional politicians, see Weber (1919, pp. 5–20; 1922, pp. 660–65).

21 This corruption was at the heart of the transition from the Roman Republic to the principate. See Anton von Premerstein (1937, pp. 15–60), quoted in Voegelin ([1952] 1959, pp. 132–39). Knies (1879, p. 171) underscores the role that credit played in this context, both in antiquity and the Middle Ages.

22 Aristotle (1995, vol. 4) asserted that "the appointment of magistrates by lot is thought to be democratical" (*Politics*, bk. 4, chap. 9). On the history of the lottery procedure, see Sintomer (2016). Frey and Osterloh (2016), as well as Follert (2020), make the case for "aleatoric democracy" in present-day politics.

23Rothbard ([1962] 1993, pp. 828–29; [1970] 1977, p. 189) and Hoppe (2001) have pointed out that for the same reason, politicians and bureaucrats tend to have a shorter time horizon than private-sector agents.

24In the world outside of the state bureaucracies, many people hold the very opposite point of view, which might be expressed as by Honoré de Balzac ([1838] 1985, p. 20): "No one comes or stays in the government offices but idlers, incapables, or fools" (*Il ne restait ou ne venait que des paresseux, des incapables ou des niais*). I am indebted to Dr. Ira Katz for this reference.

11

Haunted Donations

Government interventionism tends to impair the welfare services that are provided by the private sector. It slows down or diminishes the ability and willingness of households, associations, and firms to make donations of time and money. It substantially weakens the family and corrupts the intellectuals. At the same time, monetary interventionism creates artificial wealth and artificial concentrations of wealth that have been used to fund large-scale philanthropic organizations, a phenomenon that is today often referred to as philanthro-capitalism.

In what follows, we shall discuss these consequences of government interventionism in more detail. We shall conclude this chapter with a quantitative overview of present-day donations in the US.

Impoverished Households

Government interventions tend to paralyze the production of economic goods. They tend to be destructive of wealth. Taxation and regulation curb the free initiative of individuals, and as a consequence the production of wealth is hampered. Government subsidies and guaranties encourage irresponsible attitudes and behavior and thereby promote malinvestments and other wasteful uses of available resources.

Impoverishment through Repressive Interventions

This is obvious in the case of repressive interventions such as prohibitions and regulations. They prevent market participants from pursuing their preferred course of action, thereby impairing their ability to create wealth. The same negative impact is also quite straightforward in the case of taxation, which represents an additional cost of doing business and an additional household cost of living.

A related issue is the taxation of successions. In chapter 5, we saw that the inheritance of material goods plays a paramount role in coordinating the division of labor across generations. The prospect of bequeathing one's fortune to a worthy successor is an important motivation for saving and capital accumulation. By taxing inherited wealth, more often than not in a confiscatory way, governments hamper this vital function of successions.

To be sure, the government usually does not stockpile the money it has taken from the citizens but spends it in various ways. This expenditure creates revenues for the beneficiaries and might there-fore encourage productive activities.1 However, the overall impact of this taxation-and-public-spending redistribution game is still negative. On the one hand, as we shall argue in more detail, government spending tends to encourage reckless behavior and wasteful projects. On the other hand, at least a part of the government's expenditure is a deadweight loss because it remunerates the bureaucrats and politicians involved in the redistribution process. Unfortunately, increased taxation tends to go hand in hand with disproportionately growing bureaucracies, and therefore the deadweight loss of government spending is ever increasing. Repressive interventions therefore always and everywhere tend to have a negative impact on the production of material wealth.2

Because interventionism diminishes the wealth of the nation, it also tends to impair the ability of households, associations, and firms to donate their time and money. As wealth is destroyed, the need for gratuitous assistance increases, while the ability to provide such gratuitous services is diminished. Fewer donations are made, fewer private charities are founded and operated. Political leaders may then seek to further *increase* taxation and expand welfare programs designed to assist the needy out of the public purse.3

The result is often a vicious circle. Government interventions hamper the private provision of genuine gifts and replace it with the public provision of *false* gifts—the mixed bag of loot sharing and hidden prices that we discussed in previous chapters—which further impair the ability of private-sector agents to donate their time and money.

These general tendencies can be neutralized or compensated for by the simultaneous influence of other factors. One should not expect to see a rigid quantitative relationship between interventionism and aggregate real income (or aggregate wealth), on the one hand, and between aggregate real income and gift giving, on the other hand.

McQuillan and Park (2017) have recently examined the empirical relationship between economic freedom and charitable giving. They used

data from the World Giving Index, published by the US-based Charities Aid Foundation, as well as from the Fraser Institute's *Economic Freedom of the World* report, and from the Property Rights Alliance's International Property Rights Index. The authors found a strong relation between economic freedom and charitable giving (R-squared = 0.19) and an even stronger one between respect for property rights and charitable giving (R-squared = 0.25). Both relations are statistically relevant at the 99 percent confidence level. McQuillan and Park concluded:

> The ability to create wealth, to secure that wealth, and to transfer it easily to other people are key drivers of private charity. In contrast, government redistribution through taxes and transfer programs shrink total wealth in society. The more the government shifts income around, the less total income there is to redistribute A poorer society has fewer resources available to help the disadvantaged. (McQuillan and Park 2017, p. 42; see also Hülsmann 2014b)

Impoverishment through Permissive Interventions

The destructive character of permissive interventions is much less known than that of repressive interventions. When governments grant to some (or all) citizens additional liberties or powers that they would not have in a social order where private-property rights are fully respected, most observers spontaneously suppose that this will spur the creative activities of the beneficiaries and thereby of the economy as a whole. The common perception is that there might be moral shortcomings in this approach, but the positive impact on wealth creation seems to be obvious.

The most important practical example is the monetary system.[4] Within the past 150 years or so, governments step by step discouraged, and finally abolished, the monetary use of precious metals. In their place they have established a fiat-money regime that allows for the production of unlimited amounts of money through central banks and which greatly facilitates the creation of credit though commercial banks. These changes seem to carry significant advantages, not only for the immediate beneficiaries, but for society as a whole. Under a precious-metal monetary system, the overall money stock is strictly limited at any point in time and can be increased only marginally and at very high cost. By contrast, fiat money allows for rapid and theoretically unlimited extensions of the money supply, and thereby also of the supply of credit. Fiat money therefore allows for unlimited expansionary monetary policies designed to increase the overall

volume of monetary spending within the economy. Each dollar spent by one man is revenue for another man. More spending by some people therefore eventually begets more spending by everybody else. Thus, the economy seems to enter a virtuous circle in which increasing revenues entail increasing expenditure, thereby raising employment and aggregate production.

However, this happy tale is nearly all wrong. The grain of truth it contains is that more spending may encourage aggregate production *in the short run*. But whenever and wherever these short-run benefits are obtained, they come at the expense of long-run growth. Thanks to increased spending on consumers' goods, it is possible that more of the existing resources (labor and raw materials) and producers' goods (machines, equipment, etc.) will be drawn into the production of consumers' goods in the near future. It is this reallocation of the available capital goods that leads to an increase of consumers'-goods output in the short run. But the very same capital goods are now lacking elsewhere in the economy. Most notably, they are no longer available to produce *other* capital goods or to repair the existing ones. In the long run, therefore, aggregate production will be lower than it would have been without the stimulus given to short-run output (see Ruys 2017).

Expansionary monetary policies may entail a similar effect by discouraging savings, that is, by reducing the proportion of aggregate income held in cash or invested. When it becomes possible to finance investments with the printing press or, what in contemporary monetary systems is the same thing, with credit created from thin air, would-be investors are less dependent on their own savings. There is less incentive for them to save. And this tendency is reinforced through the fact that an expansion of the money supply typically entails lower interest rates, so that marginal savers are discouraged.

Also notice that such a drop in interest rates impairs the ability of all charitable organizations to live off their endowments. Mises ([1949] 1998, p. 834) was on the mark when he stated that

> inflation and the endeavors to lower the rate of interest below the potential market rate virtually expropriate the endowments of hospitals, asylums, orphanages, and similar establishments. As far as the welfare propagandists lament the insufficiency of the funds available for assistance, they lament one of the results of the policies that they themselves are advocating.

Furthermore, monetary interventions may tip the balance between

saving and consumption in favor of the latter by increasing the funding of the state. Under republican political regimes, the purposed of government spending is not a return on investment. Rather, the purpose is to finance various endeavors (unemployment relief, poor relief, public administration, etc.) that could not exist if they were not subsidized out of the public purse. This implies that under modern conditions, government spending is essentially consumptive spending. Therefore, whenever expansionary monetary policy increases the proportion of government spending in the economy, the share of consumptive spending increases relative to investment spending, with adverse effects for aggregate production in the long run.

Last but not least, permissive interventionism may reduce the long-run growth potential of the economy by increasing the probability of intertemporal disequilibria; that is, of erroneous investment decisions which waste the available capital goods. Here different causal chains may come into play.

According to the famous Austrian business cycle theory that Mises ([1912] 1981, pt. 3, chap. 5) first presented more than one hundred years ago, the artificial lowering of the loan-market interest rate through an expansion of the money supply entails an intertemporal disequilibrium between the various productive activities. On the one hand, the shortrun consumption of goods and services is encouraged; on the other hand, entrepreneurs are enticed to invest more capital goods in projects that can only bear fruit in the longer run and which therefore need more, not less, savings to be completed. Because these savings are simply not there, many of these projects will eventually need to be abandoned partway. Time and savings will have been wasted. The precise moment when the market participants understand their errors is when the artificial boom turns into a bust (see also Huerta de Soto [1998] 2006; Garrison 2001; Braun 2012).

There are variants of this disequilibrating impact of permissive monetary interventionism. Most notably, consider that present-day central banks usually pursue a policy of bailing out too-big-to-fail investors; that is, investors who are so large or so strongly intertwined with the rest of the economy that their bankruptcy is likely to trigger a collapse of the overall economy. Clearly, whatever the merits of this policy approach, it entices the beneficiaries to incur risks that they would not accept if they expected to pay for all losses out of their own pocket. The consequence is excessive risk taking within the economy as a whole. It is unavoidable that losses will increase in the aggregate. Now, when the central bank bails out the unsuccessful investor by granting him additional loans, or by lending

money to the state so that the government may cover the losses, this boils down to redistributing income and wealth. Ultimately it is the ordinary money users who foot the bill, because all money units will lose some of their purchasing power. The benefits are concentrated in the hands of the too-big-to-fail investors, who are bailed out by the central banks. The aggregate impoverishment that results from the wasteful investments is compounded by a redistribution of income and wealth.

To sum up, permissive interventions impair the overall ability of households, associations, and firms to donate their time and money. Because they destroy the wealth of the nation, these interventions have a negative impact on the gift economy. There is in this regard not the slightest difference between them and the repressive interventions that we discussed before. However, in distinct contrast to the latter, permissive interventions are not harmful for the gift economy for this reason alone. They also exercise a negative influence by raising the opportunity costs of donations.

Generosity Discouraged

Government interventionism not only impairs the *ability* of households to make gifts. It also makes them less *willing* to donate their time and material resources. The residents of a country with permissive interventions tend to donate less of their time and money than the residents of a country without such interventions, *ceteris paribus*. Again, we will focus on the case of permissive *monetary* interventions to illustrate our point.

The Saturation of Capital Accumulation

In a market economy, the return on capital tends to fall under the impact of increased savings. This tendency is not an iron law; there are other factors that can influence the return on capital and exercise an opposite effect. As we saw in chapter 5, technological innovations, immigration, and the discovery of new mining opportunities tend to bring about an increased *demand* for capital, and this creates a tendency for the return on capital to increase. If increased savings occur at the same time as an increased demand for capital, the return on capital can tend in either direction, depending on the specific case. However, as far as the influence of *savings* on the return on capital is concerned, our contention still holds true. Whenever and wherever savings increase, the return on capital tends to drop below the level it would otherwise have reached.

Now, under a monetary order based on the effective circulation of silver

or gold coins, any savings-induced decline in the return on capital will sooner or later discourage the *investment* of savings. We may call this the saturation mechanism of capital accumulation. In chapter 5, we highlighted the implications. If savings increase and less savings are being invested, then more savings are available for all other purposes. Some of the savings that are no longer being invested will now be used to fund future personal projects such as the embellishment of the family home, the acquisition of a secondary residence, or family trips. But clearly some other part of these savings will become available for donations.

Hence, we may conclude that under a monetary order based on the effective use of silver or gold coins, increased savings sooner or later manifest themselves in increased monetary donations. A savings-induced decline in the return on capital diminishes the opportunity cost of donations. People will therefore tend to donate more of their money.

Destruction of the Saturation Mechanism under Monetary Interventionism

Things are quite different in an economy ruled by permissive monetary interventions, especially when two conditions are united. The first condition is that the interest rate on the loan market is consistently lower than the return on capital on other markets. The second one is that the central bank—usually along with the state— socializes some of the investment risks by bailing out some (or all) market participants in dire straits. Let us explain how these conditions combine to raise the opportunity costs of donations.

If the interest rate on the loan market is lower than the return on capital in the stock market or in the real sector of the economy, then the market participants have a strong incentive to *leverage* their investments. That is, they will take out a loan at a low rate and invest the money in the real economy or in the stock market, where the rate of return is higher. They do not have to take the pains to accumulate any savings of their own. They just borrow other people's money, or money fresh from the printing press, invest it, and hope to reap a nice profit. The only consideration that might give them pause is that leveraged investments involve an increased risk of insolvency. This brings us to the second condition.

If the central bank or the government, or both conjointly, pursue a policy of bailing out insolvent market participants, then insolvency risks are diminished for all market participants. This benefits in the first place all those who may expect to be bailed out. But indirectly all other investors benefit just as well from the increased overall stability of the market. They therefore have an incentive to incur greater risks than the ones they would

have accepted if there had been no bailout policy. Most notably, they will accept higher levels of debt. They will tend to leverage their investments more often or more strongly.

Both conditions have been united in the Western world for much of the past 150 years, but especially after 1981. Since then, interest rates on the loan market have declined almost without interruption. Central banks and governments have tried to prevent market meltdowns through massive interventions in times of crisis. The consequence has been the greatest asset bull-market era ever known.

Figure 7: Monetary Policy and Asset Growth in the USA[5]

Source: Federal Reserve Bank of St. Louis, times series GDP, DGS10, and TFAABSHNO.

Figure 7 illustrates this evolution. The left panel shows the long and very steady decline in interest rates in the private sector since the early 1980s (interest rates on public debt followed an analogous movement). The right panel shows the value of US household assets relative to GDP between 1951 and 2021. This value had been near flat for thirty years and then increased from its initial level of around 400 percent to the current level of around 700 percent. Notice the strong growth spurts during times of especially accommodative monetary policy, in 1995–2000, 2002–7, 2012–17, and 2020–21.

Donations in an Insatiable Economy

The implication for donations seems to be patent. In our present-day economy, investment revenue never declines for those who are willing to leverage their investments. The saturation mechanism that we analyzed above and which slows down the pursuit of monetary revenue in a natural monetary order is voided under the influence of permissive monetary interventions (see Hülsmann 2013, pp. 239–41).

Not only is the saturation mechanism voided, but to some extent it is even turned into its opposite, for leveraging is *especially easy for those who are already rich* and who therefore have the substantial "collateral assets" needed to secure additional loans. In the topsy-turvy economic world created by permissive monetary interventionism, the richer you are, the greater are the opportunities for leveraged investments and the greater are therefore the incentives *not* to donate any money. In other words, our monetary policy creates significant incentives, especially for wealthy people who *prima facie* could donate especially large amounts, not only to invest every last penny of their assets, but also to borrow the savings of other (poorer) people to do this.

The excesses of the contemporary economic world are widely known, but their causes are ignored. And who can blame the noneconomists for shoddy explanations of our quagmires if the economists have such difficulties coming to grips with the effects of government interventionism? One example among many: a few years back, Pope Francis (2015, sec. 53) described the bizarre world created by permissive monetary interventions in these words: "Today everything happens according to the criteria of competitiveness and according to the law of the stronger, where the more powerful destroys the weaker." That certainly hits the nail on the head. It is also quite appropriate when the pope speaks of a "fetishism of money" and of the "dictatorship of an economy without a face and without a genuinely human goal" (sec. 55), when he scourges "ideologies" that "defend the absolute autonomy of markets and financial speculation" (secs. 56, 202). As Francis points out, this autonomy is not the essence of a truly free society. Indeed, as we have seen, it arises from the fact that inflationary monetary interventionism has enabled investors to overstep the boundaries that would limit their activities in a natural order based on the common law of private-property rights.

Depleting the Sources of Donations

We have repeatedly highlighted the crucial importance of families in the economy of gratuitous goods. Families are schools of love and virtue. They are therefore fountains of sacrifice, generosity, and leisure. But families have not only a spiritual foundation, but also an economic one. They embody the division of labor between the sexes and between generations. The formation and maintenance of family life is therefore premised on a reasonable relationship between its costs and benefits. Under normal circumstances, this relationship is overwhelmingly favorable to the

spouses and the different generations. However, the interventions of the state may change this. We have just seen how permissive interventions create incentives to use all available resources in the pursuit of monetary income. This also concerns the time and money that could sustain family life.

The Evaporation of the Family

According to Joseph Schumpeter, the traditional family has been withering away under the impact of growing rationalism. Once citizens begin to weigh the costs and benefits of children soberly, they inevitably conclude that, in the short term, personal costs are greater than personal benefits. In the long term, the situation could look quite different, but the short-term calculation leads away from the family. In his words:

> As soon as men and women learn the utilitarian lesson and refuse to take for granted the traditional arrangements that their social environment makes for them, as soon as they acquire the habit of weighing the individual advantages and disadvantages of any prospective course of action—or, as we might also put it, as soon as they introduce into their private life a sort of inarticulate system of cost accounting—they cannot fail to become aware of the heavy personal sacrifices that family ties and especially parenthood entail under modern conditions and of the fact that at the same time, excepting the cases of farmers and peasants, children cease to be economic assets. These sacrifices do not consist only of the items that come within the reach of the measuring rod of money but comprise in addition an indefinite amount of loss of comfort, of freedom from care, and opportunity to enjoy alternatives of increasing attractiveness and variety—alternatives to be compared with joys of parenthood that are being subjected to a critical analysis of increasing severity. The implication of this is not weakened but strengthened by the fact that the balance sheet is likely to be incomplete, perhaps even fundamentally wrong. For the greatest of the assets, the contribution made by parenthood to physical and moral health—to "normality" as we might express it—particularly in the case of women, almost invariably escapes the rational searchlight of modern individuals who, in private as in public life, tend to focus attention on ascertainable details of immediate utilitarian

> relevance and to sneer at the idea of hidden necessities of human nature or of the social organism. (Schumpeter [1942] 2003, pp. 157–58)[6]

Notice that Schumpeter conceded that the utilitarian calculus was most probably a spurious one. The balance sheet of pleasures and pains "is likely to be incomplete, perhaps even fundamentally wrong." But then *why* do men and women accept and adopt what he calls the utilitarian lesson? Why do they focus "on ascertainable details of immediate utilitarian relevance" rather than on the long-run emotional and material benefits of family life?

Schumpeter answered, very unconvincingly, that this was the work of rationalism and utilitarianism. Indeed, whatever else may be held against these philosophical doctrines, they do *not* champion a focus on tangible benefits in the short run. Something else must therefore be at stake, something that biases the choices of men and women in such a way.

Permissive monetary interventions fit the bill. As we have seen, they destroy the natural saturation mechanism of the market economy and incite the market participants to dedicate ever more time and money to commercial investments rather than to other purposes, such as donations or building a family. Moreover, when these investments are *leveraged*, there is an even stronger—almost irresistible—incentive for this change of focus. With debt comes the necessity to service debt monthly. For a family with large loans to service, the economic priorities almost automatically shift to earning income and earning it now. And from this short-run perspective, family ties and parenthood represent a heavy sacrifice indeed.[7]

Schumpeter was writing in the 1940s. His times had seen heavy-handed monetary interventions and the concomitant effects on family life. But more was yet to come. The postwar era brought forth the blossoming of the welfare state and of the enabling state, and with them a further assault on what Schumpeter had called the traditional "family motive" of economic decision-making.

In the past, state interventions more often than not served to protect the family (tax privileges, child benefits, etc.), but today's policies are almost exclusively harmful to it (overview in Mlčoch 2017, chap. 5). Admittedly, *deliberate* harm is rare. More important in practice is *unintentional* harm. In fact, the family-damaging effects of government intervention are sometimes not even considered. For example, our current monetary system is designed to create constant (moderate) price inflation, which in turn creates irresistible incentives to buy a family home and other assets with the help of bank loans. The risks are obvious. How many

families have been broken because they turned out to be unable to handle the debt burden? Those who craft monetary policy probably have no intention of producing such problems. They simply do not take them into account when they make their decisions.

In other cases, damage to the family is condoned as a side effect of public policy. This concerns in particular the policies of the enabling state that we reviewed in the previous chapter. When the state intervenes to "liberate" citizens from authorities such as the church, fathers, and mothers, it damages family life. Indeed, on the one hand, such interventions need to be funded by taxation and therefore burden families financially. On the other hand, they tend to make families superfluous.

An important example is ostensibly "pro-female" policies. Statefunded all-day schools and kindergartens aim to alleviate the life constraints of mothers. One of their purposes is to take a heavy load off women's shoulders so that they can develop freely. But their side effect has been to reduce the *relative benefits* of a life as a home-maker and to reduce the *relative costs* of raising children alone, at least in the short run. Public schools and kindergartens are financed through taxation. Therefore, the relative advantage of raising children at home diminishes, while the need for additional monetary income increases due to taxation. Females join the labor market in greater numbers. The increased economic independence of women then reduces the costs of exiting the family community. There are more divorces and more single mothers. At the same time, there are also fewer incentives *for men* to start a family, since divorce becomes more likely, along with greater economic hardship resulting from pro-female divorce laws and legal outcomes.

All in all, therefore, such policies have reduced the incentives to start a family and to keep it alive under pressure. From a woman's short-run economic perspective, the family becomes increasingly unnecessary and superfluous as a result of public schooling and other welfare services. But as the family withers, the performance of the economy as a whole is weakened. The tax base shrinks, and it becomes more difficult to fund pro-female policies.

In light of such absurdities, one may yearn for the classic welfare state. The good old welfare state—pay-as-you-go pensions and public healthcare systems—was in no way aimed at enabling individual self-fulfillment at the expense of the taxpayer. Its goal was not to liberate the individual from all life constraints, but only to provide some protection against major economic emergencies.

However, the welfare state, too, deteriorated the relationship between

the costs and benefits of family life. It, too, weakened the community of solidarity between the spouses—and between parents and children—even if not quite as quickly, brutally, and cynically as the more recent "enabling" policies. The welfare state did not slaughter the family. It slowly decomposed it. As the economic logic of the welfare state has it, families bear the costs of bringing up children, while they must share their children's future tax payments—and the tax-funded benefits of the welfare state—with all other citizens, including the childless. The financial benefits of children are there-fore socialized, while the financial and psychic costs of raising children remain private. This seems to be a very effective way of shrinking the number of families, as well as the population at large.[8]

In Schumpeter's words, we may say that the consequence of the welfare state and of the enabling state has been the fading away of the "family motive"—the desire to care for spouse and children. And as this motivation lost its grip on the businessman, the latter turned into a shortsighted and materialistic egomaniac. In Schumpeter's words:

> With the decline of the driving power supplied by the family motive, the businessman's time-horizon shrinks, roughly, to his life expectation. And he might now be less willing than he was to fulfill that function of earning, saving and investing even if he saw no reason to fear that the results would but swell his tax bills. He drifts into an anti-saving frame of mind and accepts with an increasing readiness anti-saving *theories* that are indicative of a shortrun *philosophy*. (Schumpeter [1942] 2003, pp. 161)

The Corruption of the Clerks

Government interventions do not only deplete the economic foundations of family life. For the same reasons that we have just discussed, they also afflict donations of time and effort to scientific and artistic activities carried out for their own sake. They discourage the practice of the liberal arts *as* liberal arts, whereas they encourage their practice out of purely commercial considerations.

Moreover, government interventions have an insidious and far-reaching effect on intellectual life. Ever since the rise of royal absolutism and then especially with the onset of the French Revolution, governments have been the main employers of intellectuals. They have provided employment within the public administrations and in publicly funded universities and academies. And they have also funded the arts and the sciences through

state subsidies, advertisements, and various other ways. The consequence has been the corruption of the intellectual class. Government funding has seduced lawyers, philosophers, economists, writers, painters, and sculptors into sycophantism and alienated them from the common man. This was the central theme of Julien Benda's (1927) famous *Trahison des clercs*, but it was also discussed by Josef Pieper (1948) and, more recently, by Jacques Ellul ([1975] 1978), George Steiner (1989), and Christopher Lasch (1996).

An infamous expression of this corruption was a speech delivered by the German physiologist Emil du Bois-Reymond, in his capacity as the rector of the University of Berlin, at the onset of the 1870–71 war between Germany and France. He claimed that "the University of Berlin, quartered opposite the king's palace, is, by the deed of its foundation, the intellectual bodyguard of the House of Hohenzollern."[9] Another expression of this corruption is the Marxist phrase the "intellectual worker" (*Kopfarbeiter*) and the corresponding national-socialist catchword the "forehead worker" (*Arbeiter der Stirn*), both of which stand for the rejection of leisure and contemplation in connection with intellectual activity.

However, the corrupt intellectual was not a German invention, as Benda had it, but a creature of the interventionist state. The men of arts and letters and the sciences have willingly turned themselves into minions of the omnipotent state. They have cultivated the art of double logic, useful and necessary for the justification of modern government. The case for taxation and conscription necessitates a double standard, whereas they would be rejected as theft and slavery under the common law.[10]

On the economic level, this duplicity creates a formidable moral hazard for the beneficiaries. Intellectuals, too, stand to obtain substantial material benefits if they can contribute to maintaining, developing, and glorifying the double standard (see Hoppe 2012, chap. 1).

On the psychological level, the beneficiaries of government interventions, and the civil servants first among them, are brought to feel different and better than all others. Unsurprisingly, civil service and political activities are likely to be attractive to sociopaths of all colors. According to the Polish psychiatrist Andrzej Łobaczewski (2006), interventionist regimes therefore have the tendency to turn into what he calls "pathocratic" regimes.

On the intellectual level, the double standard works like a poison. It leads to the rejection of what might be called the "intellectual commons" of humanity, most notably the universal ideas of logic, truth, justice, and beauty. On this central point, Benda was right on target. The intellectual rot of double logic was not limited to lawyers but crept into wider circles. It

was manifest in the Marxist doctrine of polylogism (Mises 1944b, chap. 6, sec. 6), according to which any argument brought forth by a "bourgeois" did not have the slightest relevance for a "proletarian" because the minds of each class were differently structured. There was no common logic, no common ground. George Steiner (1989, pp. 94–101) unearthed a similar repudiation of the common ground in the aesthetics of Stéphane Mallarmé and Arthur Rimbaud. By severing language from external reference, and by deconstructing the first-person singular, these poets had "broken the contract" with the rest of humanity.

When universal standards are rejected, there is no hope for spontaneous communion with others—for any common understanding, for agreeing on truth and beauty and justice, for dedication to the common good. Instead of communion, there is partisanship. When intellectual life is thoroughly politicized, as it has been, for example, under National Socialism and under Bolshevism, one is either in or out. He who is not one of the initiated and co-opted happy few can never hope to achieve any artistic or intellectual creation that "counts" in the eyes of those who decide who gets published, broadcasted, and paid.

Last but not least, the double logic inherent in interventionism has deteriorated the quality of intellectual output. It has produced a lot of nonsense. Harry Frankfurt ([2005] 2009), who has dedicated a book to the topic of bullshitting, points out that liars do care for the truth, whereas bullshitters do not. While Frankfurt admits that he has no good explanation for this, he notices that bullshitting is manifest and widespread in marketing and communication. But why are marketing and communication so important today? And why are they so full of humbug? One explanation may be that they are vehicles for selling government interventions and for obtaining government funding. Justifications for government interventions are always humbug. The rot is likely to start and spread from there.

An Existential Challenge

Today the great majority of intellectuals harbor an opposition to the market economy. As we have seen, this can be explained to some extent by the fact that many of them are government employees or live on government handouts. Professors and artists at state universities, to name just these cases, use the government to rip off their fellow citizens in order to fund their lifestyle and output. But other factors come into play, too, and have been discussed by Mises (1956), Hayek ([1949] 1960), Schelsky (1975), Baader (2002), Nozick (1998), Hoppe (2021), Zitelmann (2020),

and others. In the light of our theory of gratuitous goods, we may add the following consideration.

Intellectual activity requires leisure. It requires a mental attitude opposite to the self-interested activities that drive market exchange. For a passionate artist or scientist, it is essential not to let his activity be corrupted by his own material self-interest. Art that is produced in order to please paying customers is usually trash. Studies that are produced for marketing campaigns or in order to justify public policies more often than not do not have the slightest scientific value. It is therefore understandable that intellectuals would wish to keep the market at bay. However, as we have seen, it is neither possible nor desirable to completely separate leisure and the market. Both are part and parcel of human life. Both are essential. Failure to reconcile them is likely to entail market paranoia and to alienate the intellectuals from their ordinary fellow human beings.

Crowding Out Private Welfare Services

When the government provides poor relief, unemployment relief, and various other sorts of assistance, it becomes less important that similar services be provided by families and private organizations. The welfare state discourages donors who might have considered funding such private organizations. Why should they give their money to them if the state provides for the poor and the needy? Why should they donate *more* money or time when they have already made their contribution in the form of taxes? Many people think this way. It is the welfare state itself that makes the social mortar crumble, which then serves as a pretext to demand even more taxes for welfare purposes.[11]

Unsurprisingly, in the UK, middle-class donations plummeted under the twentieth-century welfare state. At the end of the Victorian age, middle-class families donated about 10 percent of their salaries to charitable causes. One hundred years later, that percentage had shrunk to 1 percent (see Bartholomew 2014, p. 42).

Likewise, the welfare state weakens the resolve of people who are considering dedicating their lives to working with the poor and the needy. Why donate time and energy if the same services are already provided by the welfare state? Why collaborate *gratuitously* in private organizations if the same mission can be pursued as a paid civil servant or as a private foundation employee?

When welfare services are remunerated, the relationship between the service provider and the beneficiary is changed. The *orientation* of the

service providers changes. The fate of the poor and needy is no longer their exclusive concern. They are now *also* interested in the preservation and expansion of their own budget. This is reinforced by the fact that, more often than not, it is precisely the people who serve primarily for money who will eventually take control of the public welfare services.

A glimpse into the history of the nineteenth and early twentieth centuries shows us how, before the advent of the welfare state, poverty had been alleviated by private means and how the state has systematically crowded out these private initiatives. Alexis de Tocqueville famously underscored the central role that free associations played in the United States of America in all areas of life:

> Americans of all ages, of all conditions, of all minds, constantly unite. Not only do they have commercial and industrial associations in which they all take part, but also they have a thousand other kinds: religious, moral, serious ones, useless ones, very general and very particular ones, immense and very small ones; Americans associate to celebrate holidays, establish seminaries, build inns, erect churches, distribute books, send missionaries to the Antipodes; in this way they create hospitals, prisons, schools. If, finally, it is a matter of bringing a truth to light or of developing a sentiment with the support of a good example, they associate. Wherever, at the head of a new undertaking, you see in France the government, and in England, a great lord, count on seeing in the United States, an association. ([1835] 2010, p. 896; see also Green 1993; Seldon 1996; and Hughes 1990, p. 46)

But the most important "production site" for social services in the early United States, as elsewhere, was the family. Tocqueville ([1835] 2010, p. 820) discussed the central role of women in American life. They ran households where "a great deal of order and purity reigned" and thereby created an "essential condition for the order and tranquillity of political society itself." Women were (and are still) the main producers of a variety of social services ranging from nursing to geriatric care, from schoolwork to teaching values and attitudes.

In Great Britain, the gratuitous provision of welfare services through families was supplemented by "friendly societies" consisting of villagers and neighbors who would pay small sums into common funds out of which aid could be provided in times of need, such as sickness, old age, a death in the

family, or the death of livestock. Twenty-seven thousand such private welfare associations were officially registered by the end of the nineteenth century (see Gosden 1961). This was the heyday of private welfare services and self-reliance, as celebrated most notably in Kropotkin ([1902] 1908) and Smiles (1907).

The private welfare industry was not just limited to families and charities. Many professionals in the liberal arts, particularly doctors and lawyers, acted philanthropically by making their prices dependent on the customers' income.12 The poor paid less, the rich more. Such practices, too, were discouraged and eventually destroyed by the fees and ordinances enacted by the state.

Richard Ebeling (2019) points out that the enormous success of the friendly societies and similar private charity organizations can be inferred from William Stanley Jevons's 1870 address to the British Academy for the Advancement of Science. Jevons was one of the foremost British economists of the day. He addressed the academy in his capacity as the president of the section of economic science and statistics. Intriguingly, he argued that private charity provided *too much* assistance:

> I wish especially to point out that the wise precautions of the present poor law are to a great extent counteracted by the mistaken humanity of charitable people. Could we sum up the amount of aid which is, in one way or other, extended by the upper to the lower classes, it would be almost of incredible amount, and would probably far exceed the cost of poor law relief. But I am sorry to believe that however great the good thus done, the evil results are probably greater. Nothing so surely as indiscriminate charity tends to create and perpetuate a class living in hopeless poverty. . . . Mr. Goschen and the poor law authorities have of late begun to perceive that all their care in the administration of relief is frustrated by the over-abundant charity of private persons, or religious societies. The same family often joins parish relief to the contributions of one or more lady visitors and missionaries. Not only improvidence but gross fraud is thus promoted, and cases are known to occur where visitors of the poor are duped into assisting those who are secretly in possession of sufficient means of livelihood. (Jevons 1883, pp. 197–98)

He went on to single out and chastise welfare services by religious

congregations:

> Far worse, however, than private charity are the innumerable small charities established by the bequest of mistaken testators. Almost every parish church has its tables of benefactions holding up to everlasting gratitude those who have left a small patch of land, or an annual sum of money, to be devoted to pauperising the population of the parish throughout all time. Blankets, coals, loaves, or money are doled out once or twice a year, usually by the vicar and churchwardens. More or less these parish charities act as a decoy to keep the most helpless part of the population nominally within the fold of the Church. The Dissenters, where they are strong enough, retaliate by competing for the possession of the poor by their own missions, and thus the reproach of the Roman Catholic Church, that it fostered mendicancy, holds far too true of our present sects. With private charity no law can interfere, and we can do nothing but appeal to the discretion of individuals. With testamentary charities it is otherwise. (Jevons 1883, p. 198)

Last but not least, Jevons drew the attention of his audience to medical charities, opposing them with the argument that they discouraged the for-profit provision of medical services by professional doctors, or "artisans," as he called them. According to Jevons, such services *should not* be dispensed gratuitously:

> The wealthy classes are, with the best motives, doing all they can to counteract the healthy tendencies of the artisans. They are continually increasing the number and resources of the hospitals, which compete with each other in offering the freest possible medical aid to all who come. The claims of each hospital for public support are measured by the number of patients it has attracted, so that, without some general arrangement, a more sound system is impossible. Hospitals need not be self-supporting, and in cases of really severe and unforeseen suffering, they may give the most lavish aid; but I conceive that they should not relieve slight and ordinary disease without a contribution from those benefited. As children are expected to bring their school pence, though it be

> insufficient to support the school, and as Government has wisely refused to sanction the general establishment of free schools, so I think that every medical institution should receive small periodical contributions from the persons benefited. Arrangements of the kind are far from uncommon, and there are many self-supporting dispensaries, but the competition of free medical charities has, to a great extent, broken them down. (Jevons 1883, p. 199)

Such, then, was the state of the private provision of gratuitous services in the United Kingdom around 1870. In the course of the twentieth century, the welfare state has set out to absorb these activities one by one. The process is still not complete, but the general mechanism that drives it is already well known.

Tax-funded welfare services replace the work of mothers and fathers because, on the one hand, more time is needed to work for money to pay the taxes; and because, on the other hand, an entire panoply of government interventions destroys the family from within. Without going into full detail, let us mention that women are subject to constant government-funded propaganda denigrating motherhood. Let us also point out that various legal reforms ostensibly designed to protect women (facilitating divorce, increasing the financial obligations of divorced husbands, reducing the parental rights of divorced husbands, and so on) have dissuaded large numbers of young people from entering a marriage covenant.

A similar fate was shared by the private charities that dominated the welfare sector in the nineteenth century. At the time, they usually saw their job as helping those who fell through the family's social network. They were "private welfare producers" fulfilling a function that corresponds to that assumed today by the welfare state. The welfare state has been able to crowd out these competitors by obliging the taxpayers to fund the public institutions. In the United Kingdom, there are only some two hundred friendly societies left today.

Philanthro-Cronyism

While permissive interventionism impairs the ability and the willingness to make donations, it also redistributes income and wealth. While there are fewer donors, these donors become larger. But these larger donors, too, remain subject to the incentives springing from interventionism.

The beneficiaries of permissive interventionism have a greater *ability* to

make donations of time and money. But they do not thereby have a greater *disposition* to this effect. As we have seen, permissive interventionism tends to *reduce* the willingness to make donations among both the poor and the rich. It creates a stingy culture in which the newly rich are less and less generous. Donations are still made, but increasingly in the form of grants rather than in the form of pure donations. In today's world, this tendency is embodied most notably in the presence of thousands of ostensibly philanthropic foundations which are engaged in the grant-making business and some of which are very large (see Maclean, Harvey, Yang, and Mueller et al. 2021).

Philanthropic foundations benefit from a special tax status that exempts them from income taxes, wealth taxes, and capital taxes in order to pursue an agenda in the interest of the common good. The trouble is that the "common good" is easy to understand in a general sense but defies concrete definition. If almost *anything* could potentially benefit the common good, then it becomes possible to set up foundations for any objective that nominally satisfies the letter of the law. Unsurprisingly, foundations have proliferated, and the typical foundation pursues a rather selfish agenda (see, for example, McGoey 2015).

This phenomenon has misleadingly been called philanthro-capitalism. Its true origin is not the market, but the gigantic redistribution of incomes and wealth that results from massive government interventions combined with legal privileges for ostensibly philanthropic foundations. We should therefore speak more properly of philanthro-interventionism, or philanthro-cronyism.

Modern and Ancient Philanthro-cronies

As Paul Veyne has pointed out, philanthro-cronyism already existed in Greek antiquity. Affluent citizens donated large chunks of their wealth to fund public games and military expeditions. Following André Boulanger, Veyne ([1976] 1990) called this practice *evergetism* (or *euergetism*, εὐεργετέω), the practice of doing good deeds (see more recently Zuiderhoek 2009; the abundant literature on plutocracy is also pertinent here, starting with classic texts like Sumner 1913, pp. 283–304, and including Mitchell 2022). The do-gooders of antiquity are exactly what we would expect to find in an interventionist economy. Greek antiquity was riddled with all sorts of government intrusion, including inflationary monetary policies. The natural consequence was the creation of a caste of privileged beneficiaries.

The philanthro-cronyism of our day shares all the essential features of

its ancient predecessor. It has its philanthropic businessmen and its intellectual ringleaders, both of whom typically come from the same ultra-rich families (see Rhonheimer 2021). The businessmen more often than not obtain their immense wealth through legal monopolies, government interference in labor conflicts, and other forms of privilege. At the end of their distinguished careers, they feel the desire to "give back to the community" in the form of donations, but also in the form of advocating higher taxes on incomes and inherited wealth.

Whether this is a genuine change of heart, a political tit for tat, some shrewd maneuver, or all of these at the same time remains hidden in their hearts. The fact is that both modern and ancient philanthro-cronies have championed the taxation of incomes and inheritance. The fact is, too, that they have denounced fellow businessmen who have raised objections to such taxation.

Andrew Carnegie's *Gospel of Wealth* (1901) is the prime literary expression of this mindset, but it can also be found in various public statements by Warren Buffet, Bill Gates, and other billionaires of our own day (Carnegie's case has been studied with great acumen by Bostaph 2015). It has long been known that the taxation of incomes and inheritance is a most effective way to protect established wealth against an onslaught of young competitors. But it turns out that the mantle of philanthropy is just as effective in cloaking anti-competitive policies.

Unsurprisingly, the modern and the ancient philanthro-cronies share a vision of the economy as a zero-sum game (see Rhonheimer 2021). And this vision corresponds exactly to their own situation. Whereas ordinary economic activity and market exchange typically lead to win-win outcomes, government interference creates winners and losers.

Moreover, the large-scale philanthropic foundations of our day, and the US foundations in particular, have in various ways sapped the sources of gratuitous goods. They have done this most notably by promoting the ever-greater expansion of government interventionism, up to and including full-blown socialism. They have sawn with great relish the capitalist branch that supports them and all others (see Nielsen [1985] 2017; Mac Donald 1996; Finn 1998; Ferguson 2021).

Philanthro-cronyism has thereby undermined generosity and the beneficial side effects of market exchange. Yet the root cause of this problem is not to be seen in the natural operation of a free-market economy, but in permissive interventionism—especially monetary interventionism—combined with special tax regimes for philanthropic organizations. These are the forces that have put artificially large fortunes in

the hands of socialists (see Hülsmann 2021).

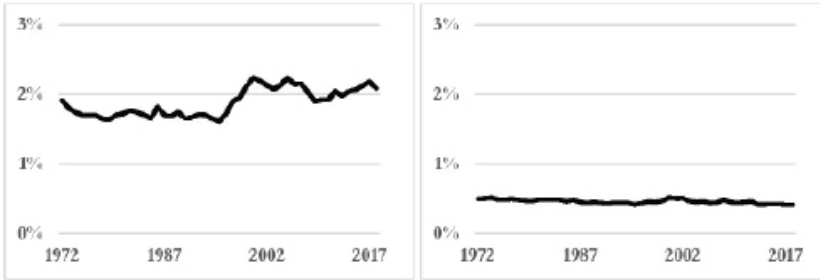
Donations Today

In conclusion let us discuss the available information on the overall *quantitative* impact of government interventions on philanthropy in the US. In chapter 5, we saw that in a free-market setting, philanthropy is symbiotically intertwined with market activities. It grows with a growing market and shrinks with a shrinking market, but it tends to both grow and shrink faster than the market.

In this chapter, we have explained why these tendencies tend to be inverted in interventionist systems, and especially under expansionist monetary policy. The past fifty years have been marked by very robust monetary interventionism all over the Western world, starting with the demise of the gold-based Bretton Woods system in 1971. This interventionism brought about a long decline in interest rates into the present day of zero-interest-rate and negative-interest-rate policies. As we have seen, such policies strongly undermine the *willingness* to devote resources to genuinely philanthropic causes. They also undermine the *ability* to make gifts, with the notable exception of the relatively small groups of people who stand to benefit from the redistribution of wealth through the printing press.

Unsurprisingly, under these circumstances, the philanthropy metrics do not show any tendency to grow faster than the for-profit sector. In fact, in the US they have been flat. Figure 8 displays *monetary* giving to *charitable institutions* as a percentage of GDP (left) and as a percentage of total household and nonprofit net worth (right). They show that monetary giving rose marginally during the stock-market bull years of the late 1990s and early 2000s. Otherwise, within the past forty years, Americans have habitually donated around 2 percent of their income and about 0.5 percent of their net wealth each year.

Figure 8: Monetary Giving in the USA, 1972—2018[13]



Source: Giving USA Foundation, St. Louis Fed.

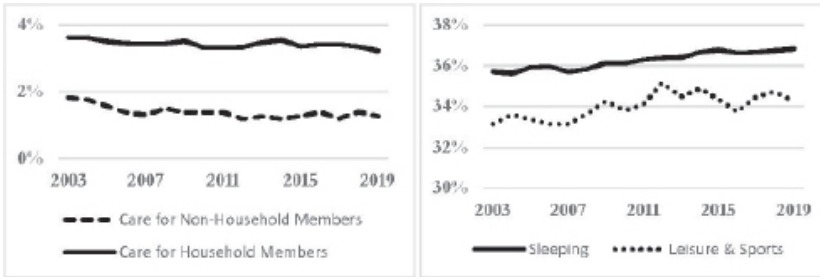
Notice that these figures are but an incomplete reflection of charitable activities in the US. They only concern monetary gifts, and only gifts made to philanthropy intermediaries, whereas direct gifts to other people are not included. In chapter 5, we saw that annual bequests in the US may plausibly be estimated to be in excess of 9 percent of GDP. This alone would be a substantially greater sum than what is given to charitable institutions. The above figures therefore significantly *under*estimate the quantitative dimension of gifts in the US. They do not include spending on personal gifts or intra-family transfers such as bequests and the funding of education.14 They also do not represent nonmonetary gifts, most notably the donation of one's time inside and outside of the family.

While the above figures do not adequately represent the *general level* of giving, one could argue that the flattening of monetary giving to charitable institutions probably represents the evolution of the gift economy as a whole. However, this argument would be questionable. It would be premised on the assumption that in the past fifty years there has been a somewhat *constant quantitative relation* between monetary donations to philanthropic intermediaries and all other forms of giving. Yet this assumption is almost certainly wrong. From a theoretical point of view, we should expect that *all* forms of *genuine* gifts tend to *drop* under the prolonged impact of permissive interventionism. In regard to *monetary* donations, as we have seen, this decline might be partially offset by redistribution effects and by the tendency to use foundations and grants as a vehicle for tax evasion. However, we should still expect the overall impact to be negative because grants are not genuine gifts and because the offsetting tendencies concern *only* monetary donations, not donations of time.

Some attempts have been made recently to quantitatively assess donations of time, but the data only go back to the 2000s. The available time series are therefore not useful for assessing the long-run impact of

government interventionism and of monetary interventionism in particular.

FIGURE 9: TIME DONATIONS IN THE US, 2003–19[15]



Source: Bureau of Labor Statistics, US Census Bureau; calculations by JGHülsmann.

The American Time Use Survey since its inception in 2003 has shown a marginal decline in average time donations and an increase in time spent sleeping and on hobbies. These are *average* trends for people aged fifteen years and older. Significant differences exist most notably between men and women, and between age groups. More-over, we should keep in mind that it is strictly speaking impossible to distinguish gifts from grants without looking into the hearts of the donors. What appear to be *donations* of time may just as well be time transfers that are part and parcel of an intergenerational exchange (see, for example, Mazzotta and Parisi 2020).

The Survey of Health, Ageing and Retirement in Europe (SHARE) has a different focus. It seeks to provide information on the living conditions and health status of individuals aged fifty and over in various countries of the European Union and in Israel. The SHARE surveys have so far been conducted in eight waves, starting in 2004. Some of the data concern intergenerational transfers, especially the impact of welfare-state policies on transfers from parents to children (downstream) and from children to parents (upstream). Unsurprisingly, the data show a significant crowding-out effect (see, for example, Attias-Donfut, Ogg, and Wolff 2005; Mudrazija 2014, 2016).

All in all, therefore, when it comes to assessing the general tendencies of donations today, we can propose two reasonable hypotheses. One, the massive government interventions of the past fifty years, especially in the field of monetary policy, are likely to have entailed a significant overall decline in time donations and in money donations relative to income and wealth. Two, this decline is probably *least* pronounced in monetary giving

to charitable institutions because of the countervailing tendencies that we have discussed.

1But it might also *dis*courage them. See pp. 302ff. on the welfare state.

2For more exhaustive discussions, see Mises (1949) and Rothbard (1962, 1970, [1973] 1994). This does not mean that each and every intervention will be followed by a reduction of the economic growth rate as compared to previous months or years. Rather, it means that each and every intervention will reduce the growth rate below the level it would otherwise have reached. Interventionism entails a *relative* impoverishment, not necessarily an absolute one. See Hülsmann (2003, 2004).

3Mises ([1949] 1998, p. 834) contended: "The greater part of those assisted by charitable institutions are needy only because interventionism has made them so."

4Another important example is the promotion of nonprofit firms, or social enterprises, with taxpayer money, tax exemptions, and dispensations from business regulations. See Bennett and DiLorenzo (1989). Their book has received important annotations and criticisms from the pen of Mark Hughes (1990). He argues that Bennet and DiLorenzo's arguments are valid as far as public or government-sponsored enterprises are concerned, most notably, because such ventures can tap into taxpayer money. But the same arguments do not apply to genuinely private organizations. For example, Hughes (1990, p. 54) points out: "The argument that, in the name of fairness, commercially active nonprofits should not be exempt from taxation and regulation is tantamount to arguing that we can't free one slave since that would be unfair to the rest who were not freed. The authors' solution to this so-called unfair competition does not level the competitive playing field; it simply makes everyone play on the bumpiest part!"

5Left panel: 30-Year Fixed Rate Mortgage Average in the US, 1971–2022. Right Panel: Total Household Assets relative to GDP, 1951–2021.

6Very similarly, Lubomir Mlčoch (2017, pp. 40–43) has recently argued that prioritizing short-term material revenue at the expense of family time ("Baumol's disease") results from information asymmetries.

7Empirically, as Jeffery Degner (2019) has recently pointed out, the relentless price inflation that results from permissive monetary policies has contributed to increasing divorce rates all over the world. The rising cost of higher education and housing have put a cap on the number of first marriages, increased the average age at first marriage, reduced childbearing, and increased divorce rates.

8For the empirical record of the relationship between the welfare state and fertility rates, see Engels (1996, pp. 23–32); Murray (2012); and Boldrin, De Nardi, and Jones (2015).

9"Nun wohl, die Berliner Universität, dem Palaste des Königs gegenüber einquartirt [*sic*], ist durch ihre Stiftungsurkunde das geistige Leibregiment des Hauses Hohenzollern" (Bois-Reymond 1870, p. 45).

10Eric Voegelin ([1952] 1959, p. 4; 2000) has interpreted modern political history as a succession of gnostic movements. He argues that this succession had early roots in the ninth century with Scotus Eriugena, broke into the open in the twelfth century with Joachim of Fiore, and then had a decisive breakthrough in England with the Puritan Revolution and the Hobbesian reaction. Gnosticism has two characteristic features: the conviction that the world is inherently disorderly and can only be made to work with the progress of human knowledge, and the conviction that the pertinent knowledge is reserved to small circles of special persons (esoterism, elitism). In the light of Voegelin's analysis, it appears that the history of gnosticism is the history of modern government. We may venture to say that it is the history of interventionism. It has produced a strong esoteric strand in intellectual life.

11See the empirical study by Payne (1998). Andreoni and Payne (2003) found that charitable foundations make significantly less effort to fundraise once they receive government money. Other cases are less unequivocal, most notably lotteries. In the 1990s, there was a debate in the UK about the impact of the national lottery on charitable giving. The national lottery had been established in 1994. It had the mission to allocate its profits to fund large-scale public projects, the arts, charitable organizations, and similar activities, but it quickly turned into the major source of funding for many of these. Surveys brought to light that the majority of lottery players considered playing a good way to support charity and that 28 percent of those surveyed had cut their charitable giving as a consequence (see Wright 2001, p. 403). By contrast, Landry et al. (2006) found that funding through lotteries had increased total donations to charities.

12On the important case of medical doctors, see Green (1985) and Riley (1997).

13Left panel: Total Monetary Giving Relative to GDP. Right Panel: Total Monetary Giving Relative to Household and Nonprofit Net Worth.

14According to estimates of the Bureau of Labor Statistics (2014), for the year 2013, gifts of goods and services represented 2 percent of all consumer expenditures. The largest gift items were education funding (25 percent of all personal gifts), especially for college tuition.

15Left panel solid line: Caring for and helping household members (including travel), as an average percentage of daily waking hours. Left panel dotted line: Caring for and helping non–household members (including travel), as an average percentage of waking hours. Right panel solid line: Average sleeping hours as a percentage of 24 hours. Right panel dotted line: Leisure and sports (including travel), as an average percentage of daily waking hours.

12

Interventionism and Side-Effect Goods

Interventionism does not only affect the ability and willingness of ordinary citizens to make donations. It also has a significant impact on side-effect goods such as the ones discussed in chapter 6. What happens to cultural commons such as language, law, and money in an interventionist economy? What happens to the unintended benefits of leisure, of human error, of market exchange, and of savings? How do they fare under a regime of legal monopolies, in a welfare state, and under inflationary monetary policies?[1]

Privatization of Pricing Effects

The beneficiaries of legal monopolies are shielded from the competitive market process. The law enables them to privatize some of the wealth effects of the market pricing process that we discussed in chapter 6.

Without the monopoly, these wealth effects would fall entirely on other people: the customers, who would be able to purchase the products at lower prices and as a consequence could spend more money on other products. Thanks to his privilege, the monopolist is able to obtain higher prices for his products. His revenue increases relative to the level that it would have reached under competitive conditions. He obtains gratuitous goods at the expense of his customers and of other producers.

Murray Rothbard famously demonstrated that legal monopolies entail completely different consequences than other forms of market dominance that emerge in the absence of legal privileges.[2] The reason is that legal monopolies cannot be *contested*. The legal monopolist may be a very inefficient producer, but he stays in business because the law shields him from competitors. Things are different in the case of a firm that comes to

dominate a trade or an industry without legal protection. The dominance of a free-market monopolist stems from superior efficiency. His competitors have, so far, been unable to match his services. But the competition goes on. One day, other producers may succeed in toppling the market leader. Until then, their competition drives down prices and costs. Such a contestable monopoly is therefore *prima facie* beneficial for the customers, and for the economy as a whole, most notably in that it entails spontaneous wealth effects. By contrast, any legal monopoly is *prima facie* detrimental for its customers and the economy at large.

Privatization of Cultural Commons

At all times and in all places, people have tried to privatize communal land and to make others pay for whatever advantages or benefits these others might have obtained, thus far, without payment. We have seen that such privatizations are strongly limited in the context of a private-property order. Where all social relations are based on custom and consent, communal land is privatized only in order to solve communal problems such as congestion or depletion.

But interventionist governments are not limited by custom and consent. They may infringe upon other people's property rights in order to attain their ends. They therefore enjoy greater leeway in the quest to appropriate various goods. Historically, this concerned especially landed property, as well as cultural commons such as law and money, today also language and science. Governments have attempted to control all aspects of human culture. Their preferred means have been propaganda, legal monopolies, and forced migration.

Governments may facilitate the privatization of cultural commons by private persons or organizations; for example, by creating legal monopolies to the benefit of these parties. But legal monopolies may also serve to privatize side-effect goods for the immediate benefit of the government itself. From time immemorial, governments have created state monopolies in order to put into place monetary and legal *systems* of their own design.

Invariably, government propaganda has presented these systems as great boons for humanity. Today public schools and public universities teach the benefits of the Code Napoléon, the US Constitution, the Bretton Woods system, the European Economic and Monetary Union, and so forth. They typically do *not* teach that the creation of each of these systems was part and parcel of a privatization to the benefit of the state. They insinuate that, without the state, there would be no law and arbitration, no money and

monetary exchange at all and that the state *creates* law and money out of nothing.

The truth is that both the law and money are older than the state. They are older than any form of political government. Before the advent of legal and monetary interventionism, arbitration and monetary exchange networks existed in the form of *spontaneous orders*, and these orders were cultural commons. They were not centrally controlled. They were not owned. There was competitive arbitration and there were competitive monetary exchanges. But even though these processes lacked *central* coordination, they were meaningful wholes, rather than mere coincidences of individual decisions and individual exchanges.[3]

Before the advent of political legal systems, the competitive adjudication of conflicts did not occur in a normative vacuum. Each claim, each decision, was informed by precedent. Each decision was meant to prevent or diminish future conflicts. In other words, all individual claims and decisions were in one way or another *related* to all other claims and decisions. They were parts of a whole, of a spontaneous juridical order. And there were jurists who kept records of past decisions and of the principles that inspired them. And there were legal scholars who meditated on all these connected facts and principles and published their understanding of the whole legal order.

Similarly, before the advent of monetary systems, the exchange of concrete sums of money for other concrete goods did not occur in an economic vacuum. Each exchange was informed by the knowledge of past prices and by the expectation of certain future prices. Each exchange was geared toward the best use of the available resources in the larger economic context. As a consequence, all individual exchanges were related to one another. They were parts of a whole, of a spontaneous market order. And there were economists who wrote treatises in which they presented their understanding of this spontaneous monetary economy.

When governments intervene to impose one type of money on the economy, they impose one vision—their vision—of what money is and should be. They replace the free monetary *order* with a *system* of their own design.[4] Unsurprisingly, all monetary systems have been biased in favor of the government. All of them have enabled the government to artificially increase the production of money and to spend the new money units first. In short, monetary systems serve the purposes of the state, whereas a monetary order—a cultural commons—does not strictly speaking *serve* anyone, even though it *benefits* all owners of money.

The story does not end here. Precisely because monetary systems are

biased in favor of the state and its allies, they bring about an interventionist spiral that tends toward the destruction of the system. The gratuitous enjoyment of new money fresh off the printing press creates irresistible appetites for even more money from the printing press. Governments get into debt in anticipation of their future ability to meet all financial obligations with new units of fiat money. Government allies in the business world—most notably in banking—do the same. As the debt grows and the economy becomes fragile with debt, it becomes ever more necessary for central banks to bail out the big debtors, who are "too big to fail" because their default would create a tsunami that would sweep across the economy. Hence, more money is created in order to prevent a meltdown, with the perverse effect that the old debtors feel cocksure of being bailed out again and again—and with the further perverse effect that new groups of people will turn to funding their spending with credit in the hope of being bailed out as well.

In short, the creation of monetary systems goes hand in hand with the deterioration of the entire economy. Highly leveraged firms and households are forced to use much of their resources to monitor and manage their debt. This leaves them less time and money to pursue their genuine activities. Moreover, the economy becomes ever more centralized, fragile, and dependent on central banks and government bailouts.

This leads to an interesting conclusion. A monetary economy is sustainable only if it is built on a spontaneous monetary order. In other words, it is sustainable only if it is built on a *gratuitous* monetary order. The privatization of this cultural common is ultimately abortive. Any monetary *system* sooner or later destroys itself.

Bruno Leoni and others have presented analogous arguments in regard to the juridical order. The law is beneficial and sustainable only to the extent that it is part and parcel of a free and spontaneous juridical order. The privatization of the legal process to the benefit of the state entails interventionist dynamics that pervert and undermine the role of the law. Rather than being an unowned vehicle for maintaining good social relations and making the enjoyment of property gratuitous, the law is turned into a tool of the state, by the state, and for the state.[5] And this privatization of the law does not only destroy the gratuitous benefits of the legal order. It destroys the legal order itself. In the end there is neither law nor order.

Michael Esfeld (2023) has recently presented a similar argument with respect to science. He points out that scientific endeavors thrive on the possibility of questioning and challenging all propositions. Science is an

ongoing and never-ending process rather than any single state of knowledge. The "science" on any subject is this cultural common, not the seemingly authoritative summary in a textbook or a medical protocol. State intervention into this process invariably brings about a tendency toward its corruption and destruction. Esfeld therefore calls for a strict separation of science from the state.

Sterile Examples

Examples are important side-effect goods. Literature, sculpture, and the modern media show the virtues and vices of heroes, antiheroes, and villains. The successful management of a business, a saintly life, heroic resistance against overwhelming odds, and personal consecration to an art or to a science are costless models for others, as are failure and bankruptcy. Good and bad examples may be instructive to others. Both are goods. Both are gratuitously available to whoever cares to understand them.

However, examples are beneficial only under three conditions: the observer must be *able to understand* the example, be *willing to understand* it, and have the *independent capability* to translate his understanding into action. Interventionism tends to destroy all three.

The very *difference* between good and bad examples disappears when governments and central banks bail out bad behavior. The ability to *distinguish* good from bad examples is also hampered by public schooling (see West 1965; Rickenbacker 1974; Blankertz 1989; Caplan 2018). Countries that spend the most money on their public schooling system—such as France and the US—very often achieve exceedingly poor results in terms of student performance in reading, mathematics, and science. The reason is that government-run schools suffer from two basic handicaps. On the one hand, they have an enormous administrative overhead that eats a lion's share of the financial resources and often paralyzes the teachers on the ground. On the other hand, they bring into play—and then tend to focus on—bureaucratic and political objectives such as graduation rates and equality of outcomes, rather than on scholarship. This focus thoroughly perverts the entire learning process. It undermines the students' *willingness* to learn or do anything. Uninterested students and frustrated teachers therefore have become the hallmarks of public education systems. With very few exceptions (such as Finland and South Korea), public schools have become engines of incompetence and of indifference to learning.

Moreover, notice that government interventions also curtail the ability to *independently apply* the lessons learned from examples. We have seen that

monetary interventions tend to discourage savings, especially in low-income families. Yet without personal savings it is next to impossible to go one's own way in establishing a trade or a business. And those who do possess personal savings still face other formidable obstacles: patent laws and mandatory product requirements.6 In what follows, we shall discuss the combined incidence of such laws in some more detail.

Unhampered Imitations

Human development has been, and is still, very largely based on the imitation of other people. Infants copy their parents, pupils their teachers, students their professors. Even the geniuses who make original contributions have learned the basic techniques of thinking, writing, calculating, and crafting from other people. Their own contributions are, as a rule, but marginal developments based on what they have received from others.

More generally, all progress is made by learning and adopting the best practices of others. Following Rémi Brague (1999), we have seen that this concerns not only products and services, but also cultural patterns. The Romans became transmitters and developers of Greek culture, and all Europeans adopted and developed the culture of the Romans. Later they assimilated what they believed to be the best elements of other civilizations such as the Chinese and Japanese civilizations. In short, man progresses by imitating and copying other human beings.

Throughout human history—with the sole exception of the past 150 years or so—the process of imitating and copying occurred *gratuitously*. In the late eighteenth century, the French revolutionaries recognized patents (1791) and author's rights (1793)—roughly speaking, copyrights—as a matter of absolute principle, yet in the same breath limited their *application* both in time and otherwise. In the early nineteenth century, economic pressure groups agitated for a more generous application of the law. Then a countermovement emerged in Paris and other places, among socialists and among economists of a free-market orientation. The debate reached its apex after an 1858 congress in Brussels with some four hundred participants from fifteen countries. Eventually an international convention on copyrights was signed in Berne in 1886 which established a framework for subsequent national legislations until intellectual property rights became a contested topic again with the advent of information technologies in the 1980s and 1990s.7

In short, the beginnings of our present-day international patent system go back to the second half of the nineteenth century. The creation of that

system was driven by the most advanced countries and fiercely opposed by those—like the young US—who sought to catch up with the economic leaders by copying their products. No human invention before that time had been protected by patent laws on a worldwide scale, and many inventions in the present day have no such protection, either.

Another important fact is that sweeping technological progress can occur, has occurred, and is occurring without any special legal protection. Patent laws are not necessary to make it happen. In the past, patent laws have usually slowed progress down (see Kealey 1996; Boldrin and Levine 2008). Examples include the development of railways, computers, cell phones, and arms, to name just a few of the better-known cases. The steam engine and other parts of railway technology were developed slowly from scratch in the second half of the eighteenth century and then, once the initial patent rights had expired, developed rapidly all throughout the nineteenth and twentieth centuries.

It is true that, in the absence of patent laws, there is a distinct incentive to focus on innovations and inventions that make *marginal* contributions. But this is not necessarily a disadvantage. Incremental improvements that are easy to imitate and do not cost much are likely to spread particularly fast. From an overall point of view, this should be considered a distinct advantage. Moreover, the absence of patent laws does not prevent inventors and innovators from starting large-scale projects. It is true that such projects as a rule do not make business sense if they cannot hope to benefit from patents. But this does not mean that large-scale projects are necessarily doomed without patents. Grant-making foundations are likely to fill the gaps that profit-driven firms cannot fill. In fact, as Richard Cornuelle (1965, chap. 16) and others have convincingly argued, this is the proper role of foundations within the larger economy. They are created to fund precisely those projects that are too large for individual sponsors and too risky for businesses. Cancer research and various other fields have benefitted from such private funding.

The Incidence of Patent Laws

How do patent laws stand up in comparison to the working of a purely private-law economy, in which nobody benefits from legal monopolies of any kind?

Patent laws are an outgrowth not of the free market but of government interventions. The idea is to reward creative activities and thereby to stimulate research and development. Patent holders may concentrate the benefits of any technological progress on themselves and on their clients,

which in turn allows them to exact (higher) payments in compensation for these benefits. In other words, *the very objective of patent laws is to privatize the benefits of inventions*. Without patents, useful inventions could be freely imitated and improved by others. Patent laws seek to destroy the possibility of gratuitous imitation and thereby to privatize a greater part of the benefits of inventions.

There is no disagreement as far as this matter is concerned. From the economic point of view, the only question is whether this forced privatization of side-effect goods amounts to anything more than a redistribution of wealth in favor of the patent holders. The advocates of patent laws claim that the latter serve the common good. Patent laws do not simply enrich some at the expense of others but provide genuine benefits for society as a whole. They deprive many people of gratuitous goods, but this is the price to pay in order to stimulate research and development. But is this claim true?

Notice first of all that patent laws do not favor technological progress *per se*. Rather typically they benefit a *special kind* of technological progress, one that is based on capital-intensive research, which might not be worth the while if others can copy the results of that research without contributing to the costs.

Patent laws channel some creative activities into "patentable" forms at the expense of forms that do not benefit from legal protection. They allow the patent holders to hamper others. They are monopoly laws. They encourage creative activities only indirectly. The direct incentive is to "produce patents" with the maximum revenue impact.

Now, the stark fact is that, outside of pharmacy and a few other areas, patents play no significant role in technological development. They have so far played no significant role in the development of cell-phone technology, of the internet, etc. Patents have played a considerable role only in those areas *where patented products have been imposed on the public* (mandatory product requirements). For example, patents for medical techniques and pharmaceutical products as such do not prevent the development and use of alternative treatments and traditional plant-based medication. In a competitive economy, the market share and the profits of the patented products would therefore be limited and probably modest. But the economic value of these patents is greatly enhanced by the simultaneous obligation for all citizens to use only such techniques and medication as are authorized by the state, and by the fact that the state typically ordains the use of patented techniques and medication. In other words, the main damage comes from the state-sponsored *imposition* of patented goods.[8]

Wherever only patented goods may be used or produced, good examples may no longer be followed and therefore become sterile. Investments in low-budget technologies with moderate returns are discouraged, even though these might be most rewarding for the producers and most useful for the customers.

These problems are reinforced by the fact that the imposition of patented products creates artificially large corporations and conglomerates that are likely to *bear on the political process*, thereby self-validating their products. Examples for such products are mandatory vaccinations, state-imposed medical protocols including standard medication, army contracts, etc. Once mandatory product requirements are established, there is a great temptation to put the cart before the horse and to focus research on those products that are especially likely to be validated through (imposed by) the political process rather than the market. There is also a temptation to use political connections to outlaw low-cost alternative technologies, especially in medicine, agriculture, and banking.

Bankruptcy Laws

Interventionism not only tends to destroy the benefits of good examples. It also creates a proliferation of bad examples and eliminates the positive side effects that would result from bad examples in a free society. This occurs most notably through bankruptcy laws and bailouts.

Bankruptcy sooner or later entails the liquidation of the assets of the failing business. Regrettable though it is for the former owners, such liquidation enables others to purchase those assets at prices below production costs. The new owners of the assets therefore obtain a gratuitous benefit as a side effect of the errors of the bankrupt entrepreneurs. At the same time, such liquidations also entail a beneficial *aggregate* side effect in that the resources end up in hands that presumably will use them better than the previous owners.

However, governments have the ability to procrastinate the bankruptcy of unprofitable or insolvent organizations with taxpayer money, with new money fresh from the printing press, or with amendments to bankruptcy law. As a consequence, governments usually have the power to either eliminate the gratuitous side effects of bankruptcy or to privatize these side effects by steering the liquidation process. Bankruptcy laws enable the authorities to decide who benefits from other people's errors and thereby privatize the benefits of other people's errors.

Bailouts inflict gratuitous harm on the economy as a whole. They enable incompetent entrepreneurs to remain in business. These entrepreneurs keep

hiring people who could be working elsewhere, they keep buying raw materials that could be sold to other firms, and they keep ordering equipment that is specially designed and made for them by suppliers that could also work for other clients. The resources therefore tend to remain in the wrong hands. They are wasted. The economy is deprived of improvements that could have been obtained if the available resources had been used by others.

Moreover, bailouts create a moral-hazard problem. The beneficiaries may henceforth expect to be bailed out. Rather than avoiding the erroneous strategy that brought them to the verge of bankruptcy the first time, they may be insouciant and try it again. Or they may even develop an outright *preference* for strategies that have no business justification but which increase the likelihood of being bailed out. For example, a firm might choose a production technology that is particularly labor-intensive precisely because the massive unemployment that would result from its failure would make it more likely that the government will provide subsidies in such a scenario. Furthermore, bailouts also create an inverse moral-hazard problem *for competitors* by discouraging them from preparing for the liquidation of badly run companies. In other words, bailouts destroy the safety net that would otherwise cushion bankruptcies. When no one prepares to step in when others fail, asset prices are likely to fall much more deeply. The dependency on government bailouts increases.

The Inflation Culture

The most powerful engine for the destruction of side-effect goods is monetary interventionism. In chapter 9, we explained that inflationary monetary policy entails rationality traps and intervention spirals. Let us now see how this pertains to our present issue.

We have repeatedly underscored that the return on capital tends to be driven down when more capital is invested. While this decline *could* be offset, totally or in part, by increased financial leverage at low interest rates, most investors would shun leverage because it also increases liquidity and solvency risks. Therefore, under ordinary circumstances, capital accumulation leads to ever-lower returns on capital. The use of savings *as capital* is increasingly discouraged, and more and more savings end up in donations and other nonprofit employments (see p. 148). However, we have also seen that these natural tendencies are inverted when the authorities *subsidize* financial leverage with the printing press and taxpayer money. When they lend at low interest rates and also bail out investors on the verge

of default, the natural limits of leveraged investments are destroyed and the saturation mechanism of capital accumulation disappears (see pp. 341f.).

The authorities thereby set up a *rationality trap*.[9] Saver-investors now have material incentives to turn all of their personal savings into capital. Though they are saving ever less, they are rewarded for allocating an ever-greater share of these diminished savings to for-profit rather than nonprofit ventures. But rationality traps do not only hold material wealth in their grip. They also subvert the allocation of time. They invert the values that are fundamental for a free society. They destroy the various side-effect goods that we discussed in chapter 6.

The inversion of traditional values is not likely to happen over-night. The *introduction* of inflationary policies rarely brings about sudden and widespread changes in human behavior. But when they are pursued over decades or centuries, they cannot fail to bring about radical and pervasive changes of behavior. They then create a permissive "inflation culture" in which the tendencies that we just described become readily apparent. The willingness to make donations of time and material goods is compromised. Less time is spent on disinterested activities, whether reading, music, sports, education of one's children, worship, or spending time with others. The important word here is "disinterested." People might still read a lot, for example, or spend time with others. But these would tend to serve distinct purposes, such as professional training, social standing, or networking. Friendships would still exist, but utilitarian friendship would rise in importance. Let us examine these cultural casualties of permissive interventionism in some more detail.[10]

The Inversion of Values

Because of the rationality trap set up through permissive interventionism, bad examples proliferate. More precisely, the very meaning of good and bad is inverted. People do things that are objectively bad for other people, and sometimes bad for themselves in the long run.

They stay at home, living on welfare checks, rather than getting a job and doing something useful for others. They leverage their investments and thereby make their firms, and the economy as a whole, more fragile and centralized. But all of these decisions pay the bills. They are therefore likely to be emulated by others. The welfare family becomes a business model. So does the civil service. So does the private-equity firm which buys healthy businesses with loans out of the printing press and then guts them of their financial substance. So do all artists and writers and researchers who specialize in the noisy marketing of their services.

At the same time, and for the same reasons, all sorts of activities that provide goods for free are now avoided, disparaged, and ridiculed. The stay-at-home mother is mocked, the cash saver is a simpleton, the quiet artist who is dedicated to his work, rather than to selling it, is neglected and shunned.

Much has been written about the inversion of traditional values, an inversion so characteristic of our times. God has been proclaimed dead, and without God, anything seems to go. But the material driving force of this inversion is rampant government interventionism, especially monetary interventionism. In a free society, there are people who do silly and perverse things. But such people are few, and they do not indulge in their excesses all of the time because they mind the consequences. Silly choices cost money. Perverse choices cost good company. Yet government has the power to subsidize silliness and perversion, and with the printing press the subsidies may flow without apparent limitation. Under such circumstances, as we have seen, the very meaning of good and bad is inverted. It is very difficult to dissuade someone from doing something when he is paid to do it. The most extreme case is that of negative interest rates (see pp. 317ff.).

Trust, Cohesion, and Solidarity under Inflated Markets

The foregoing considerations can be extended in a slightly different direction. In chapter 4, we highlighted Émile Durkheim's contention that solidarity and social cohesion *cannot* result from market activity but have to be imposed on markets by suitable laws and regulations. From this point of view, "the extension of market exchanges undermines trust, cohesion and solidarity in the system" (Hodgson 1988, p. 170). Growing markets therefore seem to require an ever-growing body of regulation and legislation.

However, as we also pointed out when discussing Durkheim's contention, it is not the case that free markets operate in a moral limbo. Trust, cohesion, and solidarity can develop very well in a free economy. In our view, they can *only* thrive there.

Moreover, when it comes to understanding "the extension of market exchanges," it is necessary to distinguish between the different causes that bring forth such an extension. The *growth* of markets under the common law (in a private-property order) brings about different consequences than the *inflation* of markets (the artificial creation of markets) resulting from government interventions. Free markets are not in any sense opposed to donations, nonmarket activities, trust, or solidarity. Quite to the contrary, these develop organically along with markets, are nourished by them, and

nourish them in turn. By contrast, the artificial markets that result from interventionism are plagued by irresponsibility, injustice, and indifference. In such a context, trust, cohesion, and solidarity dry out. But it is a logical fallacy to ascribe these excesses to markets in general. They concern specifically the artificial extension of markets through government interventions.

Friendships under Interventionism

Genuine friendship *is premised on virtuous lives*. It presupposes that the friends habitually consecrate their time to doing things that are good in and of themselves. The stronger is this personal habit, the deeper is the soil on which friendship may grow. When the habit vanishes, the soil becomes shallow and genuine friendship fades away. But this is exactly what happens under interventionism.

While repressive interventionism destroys friendship in a similar way to permissive interventionism, there are also notable differences.

Repressive interventions pit one group against other groups. They willy-nilly create conflicts of interest between taxpayers and tax receivers; the government and the citizens; employers and employees; men and women; blacks and whites; old retirees and young professionals; and so on, depending on the nature of the repressive intervention. Individuals will therefore be enticed to think of themselves as members of a group. They will have incentives to organize themselves in order to obtain power sufficient to loot others or to fend off other looters. We may therefore say that the characteristic friendship of repressive interventionism is the robber gang. This is most tangible in the cases of the various professional pressure groups and of the civil service. It is also characteristic of revolutionary regimes.

The incentives are distinctly different under the permissive interventionism of the printing press. While welfare-state protégés and civil servants recognize that they must band together in order to live at the expense of other people, the beneficiaries of easy credit can indulge in insouciant individualism. Debtors, bankers, accountants, lawyers, and civil servants may blissfully assume that they are just minding their own business and that the services they provide are not in the least obtained at the expense of others. The benefits that they enjoy do not *obviously* spring from expropriations, prohibitions, and regulations that hurt other people. Yet they come to some extent out of the printing press, which subversively dilutes the purchasing power of money in the easy-credit beneficiaries' favor.

The characteristic friendship of a developed inflation culture is the business friendship. (But even business friendships may be undermined when wealth evaporates.) This is not only because *less time* is allocated to cultivating friendships, but also because the foundation of nonutilitarian friendship withers away. Such genuine friendship is rooted in the *love of others* nurtured by *shared virtues*. Both of these elements will be sapped in a permissive culture.

Friendship in an inflation culture therefore tends to be rare and shallow. Monetary interventionism entails indifference and aloofness, rather than the collective fury of class struggle. It produces the pre-hell of isolation in suburbia rather than the pre-hell of dog-eat-dog.

Contrived Rationality and Mindless Compliance

Another victim of permissive interventionism is the culture of reason. Permissive interventionism tends to discourage and destroy the use of reason and to replace it with two opposite deviations: contrived rationality and mindless compliance (cf. Hayek 1979, chap. 15, pp. 413–15).

A truly reasonable person is not a mere specialist who knows about the relationships between cause and effect in this or that area of knowledge. He is not just a technician, able to devise solutions for a given problem. He is able to see any individual problem in a wider context. He is able to ponder its importance relative to other problems, both present and future. He is able to grasp that human existence involves a multiplicity of dimensions and objectives which cannot be reduced to any one of them, except insofar as all human striving leads (intentionally or unintentionally) to God. A reasonable person is able to question the quality and the limits of his own knowledge and of the statements of others.[11]

Permissive interventionism inflates markets at the expense of leisure. It thereby creates an artificial focus on the sort of rationality that is useful for the conduct of a business firm. This focus is encouraged if the economy turns into a debt economy, which is another typical consequence of monetary interventionism, as we have seen. With debt comes a further reduction of the intellectual radar screen. The long-term dimension of decision-making tends to become less important and the short run more important. In a highly leveraged economy, the short-run necessity of servicing the debt reigns supreme. With this necessity comes a tunnel vision in economic life, a focus on monetary returns and on the short-run volatility of product and factor prices. The constricted rationality of the highly leveraged investor is most notably expressed in the "advanced techniques of modern finance," which are attempts to reduce all the

relevant dimensions of business life to a few single-dimension parameters — such as value at risk—that allow for rapid decisions for the near future.[12]

On the other hand, as we have seen, permissive interventionism creates a formidable moral-hazard problem. It creates benefits without responsibility, and this has the perverse consequence of attracting ever more beneficiaries, to the detriment of the larger whole. When financial leverage is subsidized with the printing press and government bailouts, more and more people will willingly seek to leverage their investments, while fragilizing the economy as a whole.

To curb such excesses, the authorities typically follow up with various rules and regulations and ethical guidelines. Such rules do not change the underlying driving force (permissive interventions), but they calm down the superficial observer and thereby prevent uncontrollable political shifts on election day (Hülsmann 2013, chap. 11). Most importantly, the rules give peace of mind to the beneficiaries of the interventions and to the authorities who are supposed to combat any abuses. By strictly respecting the rules, the beneficiaries avoid any personal liability. And by supervising and enforcing strict respect for the rules and regulations, the civil servants employed in the various public offices and bureaus, too, avoid any personal liability. This seems to be right and just. The only little problem is that the rules are pointless. They are ineffective in curbing the root cause of irresponsible behavior (see Gertchev 2023). To be effective, they would have to out-law permissive interventions, but this is the one thing they will never be brought to do. They do *not* serve to put a lid on the use of the printing press. They serve to reassure the electorate and to eliminate liability. The beneficiaries comply with them, and the authorities supervise the compliance, but it makes no difference as far as the underlying problem is concerned. There is compliance, but the compliance is mindless.

Such mindlessness is a higher form of stupidity. It takes considerable intelligence to conceive and design hundreds and thousands of regulations for a business or an industry. It takes intelligence and dedication to understand and apply these rules. It even takes a philosophical bent of mind to devise appropriate ethical guidelines. But intelligence does not protect against foolishness (Sternberg 2002). It takes more than mere intelligence to be wise. And intelligence by itself does not prompt people to question authority and to tackle problems at their root.

The Evaporation of Ownership

Various observers have highlighted for more than a hundred years the profound transformations of capitalism. They have noticed that the nature of business and of business leadership has changed. But only a handful of them, including Mises, Melchior Palyi, and Wilhelm Röpke, have noticed the interventionist origin of this great transformation. Röpke stressed that inflationary monetary policies invariably go hand in hand with a vanishing respect for private property:

> Inflation, and the spirit which nourishes it and accepts it, is merely the monetary aspect of that general decay of law and of respect for law. It requires no special astuteness to realize that the vanishing respect for property is very intimately related to the numbing of respect for the integrity of money and its value. In fact, laxity about property and laxity about money are very closely bound up together; in both cases what is firm, durable, earned, secured, and designed for continuity gives place to what is fragile, fugitive, fleeting, unsure, and ephemeral. And that is not the kind of foundation on which the free society can long remain standing. (Röpke [1957] 1987, p. 103)

In an inflation culture, the "vanishing respect for property" is not only to be found among thieves and taxmen. It also affects the owners themselves. When they leverage investments and fragilize their firms, they too become lax about their own property. The facilities of the printing press seduce them to adopt a new lifestyle and a new mindset.

Nobody has described this transition of capitalism more vividly than Joseph Schumpeter ([1942] 2003). But Schumpeter, like Werner Sombart (1913) and so many others before, failed to see its root. As they had it, the history of capitalism was the history of *rationalism*.

After the Renaissance, rationalism had spread first to philosophy and the arts, and later to economic life. According to Schumpeter ([1942] 2003, p. 127), it was this tendency that led to the rise of large-scale firms in the nineteenth century. The latter embodied the victory of rational management over the competition of the craftsmen but also the separation of ownership and control between shareholders and managing directors, which slowly but surely leads to a "volatilization of the property substance." The shareholder is much more indifferent to his property than the patriarchal master craftsman and even the early capitalist merchants and entrepreneurs. He will no longer defend his belongings to the last. He is

hapless against the onslaught of communist agitators bent on socializing the means of production. In Schumpeter's ([1942] 2003, p. 142) words:

> The capitalist process, by substituting a mere parcel of shares for the walls of and the machines in a factory, takes the life out of the idea of property. It loosens the grip that once was so strong—the grip in the sense of the legal right and the actual ability to do as one pleases with one's own; the grip also in the sense that the holder of the title loses the will to fight, economically, physically, politically, for "his" factory and his control over it, to die if necessary on its steps. And this evaporation of what we may term the material substance of property—its visible and touchable reality—affects not only the attitude of holders but also that of the workmen and of the public in general. Dematerialized, defunctionalized and absentee ownership does not impress and call forth moral allegiance as the vital form of property did. Eventually there will be nobody left who really cares to stand for it—nobody within and nobody without the precincts of the big concerns.

Schumpeter ([1942] 2003, p. 156) observed that the modern businessman was an executive and as such prone to a servile and indifferent mind. In his words:

> From the logic of his position he acquires something of the psychology of the salaried employee working in a bureaucratic organization. Whether a stockholder or not, his will to fight and to hold on is not and cannot be what it was with the man who knew ownership and its responsibilities in the full-blooded sense of those words. His system of values and his conception of duty undergo a profound change. Mere stockholders of course have ceased to count at all—quite independently of the clipping of their share by a regulating and taxing state. Thus the modern corporation, although the product of the capitalist process, socializes the bourgeois mind; it relentlessly narrows the scope of capitalist motivation; not only that, it will eventually kill its roots.

The most startling shortcoming in Schumpeter's text is the complete lack of any reference to state interventionism as a possible cause of servility and indifference, even though shareholder capitalism is *entirely premised* on

permissive interventions. Most of the corporations could not grow very fast without cheap credit from *ex nihilo* money production. Similarly, there would be no significant market for shares in commercial enterprise in the absence of limited liability for civil responsibility. Most investors who buy the shares of a company on the stock market wish to acquire an option on potentially unlimited future dividends and share price increases, while limiting the risks for themselves. But without limited liability, the risks would be open ended. The debts of an insolvent company would have to be served by its shareholders.

Schumpeter is similarly mute on credit-money creation, central banks, fiat money, fractional-reserve banking, and the welfare state. But the symptoms he describes have their roots here. Permissive monetary interventions had already entailed unprecedented growth in the debt economy during Schumpeter's lifetime (1883–1950). Yet this had not been a triumphant advance of "rationality," but an economically wasteful subsidy for corporations and other large companies at the expense of small and medium-sized businesses.[13] Permanent price inflation creates material incentives for all market participants to behave like financial agents. They leverage their investments and allocate more capital to liquid financial assets. And it is this financialization of the economy which evaporates ownership.

Today, financialization is manifest in the blatant disinterest of many start-up entrepreneurs in the long-run welfare of their firms. And the heirs of many established industrial firms are equally indifferent. They see their industrial property above all as collateral needed to obtain cheap credit, with which they grow the firm before selling it off and cashing in. Clearly, such an attitude undermines the long-run potential of any industrial enterprise. It is one thing for all of one's emotional and material fortune to be tied to a firm, in many cases handed down from one generation to the next. It is another thing to be a temporary user trying to maximize profits over seven years, the typical time horizon of private-equity investors. The demise of the old-school owner-entrepreneur drastically reduces the entrepreneur's decision-making horizon, both intellectually and in so far as investments are concerned. It reduces the efforts made to cultivate strategic long-run human resources. It subverts the community between the owner, the employees, the suppliers, and the customers.

Moreover, financialization draws great numbers of the most gifted and well-trained young people into the financial sector. Their behavior is entirely rational and acceptable from a microeconomic perspective. They make the best use of their talents to provide for themselves, for their

families, and for all the causes they cherish. But from a macroeconomic perspective it seems to be rather disastrous that, year after year, thousands of brilliant young university graduates use their time and ingenuity to find ways to leverage investments ever more and to evade taxation. Financialization is one of the most wasteful brain drains ever devised.

Evasion

Ownership evaporates when owners no longer want to be owners, when they evade their responsibilities. But evasion is not limited to this particular case. It is a general consequence of interventionism that manifests itself in different forms.

For example, the evaporation of the family results from spouses' evasion of childrearing. Interest in starting a family and raising children decreases when other people's children are forcibly recruited to finance nonparents' old age. Divorce rates and the number of unwedded couples rise when the state undermines the freedom of contract in order to give the supposedly weaker spouse more and more legal advantages at the expense of the other spouse.

The evasion of government interventions may also take the form of tit for tat. Rather than exchanging outright on the market, tax dodgers try to reduce their outright monetary income by resorting to tit-for-tat strategies. And such strategies are also encouraged because repressive interventions stimulate corruption (see Dreher and Schneider 2006).

Ironically, evasion is especially widespread among those who create and enforce repressive interventions. The agents of the state constantly seek to evade being controlled by the taxpayers, for example, by funding public expenditure with debt and with the printing press (rather than with taxes); by creating taxes with unclear incidence; or by using various shadow budgets (see pp. 321–22).

Government agencies also evade their own rules. For example, in most Western countries, the secret service is typically not allowed to spy on its own population. But these limitations are very often not respected (as revealed by Edward Snowden and other whistleblowers), or they are sidestepped through tit for tat with foreign governments and with private-sector partners. Similarly, central banks are typically not allowed to buy shares in companies listed on the national stock markets, but they may engage in confidential tit for tat with foreign central banks or with private commercial banks to achieve their illegal objectives.

Under the Mantle of Stability

Today, even the champions of monetary interventionism admit that the activities of central banks tend to inflate the financial sector and to redistribute wealth in favor of those who are already rich. Nevertheless, they argue that monetary interventionism conveys distinct advantages to the working classes, too. The creation of new money units out of nothing enables the central banks to stabilize the economy and thereby to preserve existing jobs. It also allows them to fund the creation of new jobs. These benefits do not require that the price *level* remain stable. They may also be obtained when the *increase* of the price level is stabilized. A policy of inflation targeting, which seeks to produce a permanent increase of the price level at preannounced levels, is therefore held to be beneficial for wage earners.[14]

In the short run, it is indeed *possible* that expansionary monetary policy may stabilize or increase employment. This is most notably the case when market participants confuse monetary revenue with real revenue (see Fisher 1928). However, the trouble is that central banks cannot know in advance whether such confusion will prevail. They have to test the market. As a consequence, they frequently produce price inflation without reducing unemployment. More often than not, unemployment even *increases* under price inflation. Furthermore, any beneficial employment effects typically go hand in hand with the consumption of capital (see p. 337). They are therefore also likely to go hand in hand with a reduced demand for labor in the longer run. In the short run, inflation targeting *frequently* diminishes employment. In the long run, it *generally* does (see Ravier 2013; Israel 2017).

But monetary interventions also influence real wages indirectly, through the side effects on savings. In chapter 6 we saw that the *cash saver* confers higher purchasing power to the money units spent by all other people and that the *saver who invests his money savings* bestows wealth effects on others. Most notably, he swells the purchasing power of *wage earners*. This is not only because all wages are paid out of money savings (Reisman 1996; Braun 2014), but also because the investment of savings is conducive to economic growth. In a growing economy, all material goods become ever less scarce relative to labor. The more capital is accumulated, therefore, the fewer years of labor it takes to buy a house or a car.

These wealth effects diminish and vanish as a consequence of inflation targeting and similar monetary interventions. Since World War II, the price level in virtually all countries has increased every single year. Such

permanent price inflation eliminates the material incentives to save in cash.[15] The available revenue then either is not saved but spent on consumers' goods or is invested. The former is typical for low-income persons; the latter prevails among higher-income persons (see Campbell 2006).

Privatizing the Side Effects of Money Hoarding

Low-income savers typically prefer to save cash—they stock-pile money in checking or savings accounts. But the relentless price inflation of the past seventy years has discouraged this habit. The problem is that it has not only discouraged cash savings, but savings in general. The simple worker who despairs of the one form of saving that he knows and trusts—saving cash under his own direct control—is not likely to turn to other forms of savings. He is not likely to open a financial account with a bank or a broker. He knows nothing about financial markets. Deep down, he often distrusts and even despises the world of bankers and brokers. As a consequence, the permanent price inflation since World War II has destroyed the entire savings culture of the working classes.

This destruction has its own ramifications. On the one hand, permanent price inflation traps low-income groups in poverty by turning them into permanent clients of the welfare state. On the other hand, it facilitates the privatization of the side effects that spring from cash savings.

Indeed, permanent price inflation is a formidable boon for the development of financial markets. When saving in cash is no longer a rational option, when savings virtually *have to* be invested, then they have to be (a) invested in one's own business, (b) invested in the businesses of other people, (c) invested in real estate, or (d) lent to a private household or to a government. All these scenarios bring about an increased demand for the services of financial intermediaries, and of commercial banks in particular. This is obvious in cases (b) and (d). But in an inflation culture, it also holds true for (a) and (c). Indeed, as we have seen, under permanent price inflation there are strong incentives for all agents to leverage real-estate investments, as well as investments in their own business.

The side-effect goods that result from cash saving therefore tend to be privatized for the benefit of commercial banks and other financial intermediaries. When savers hoard cash, their savings entail myriads of infinitesimally small wealth effects that are spread out among all other money users in unknown and unknowable proportions. By contrast, when savers make financial investments, they concentrate the wealth effects on selected counterparties and to the detriment of all others (see Hülsmann

2013, pp. 63–68). Financial investments therefore privatize the wealth effects of savings, whereas cash saving conveys them to others in the form of side effects.

Notice that this privatization occurs spontaneously. Money savings are not confiscated. The savers are not robbed. Rather monetary interventionism changes the costs and benefits of cash savings as compared to financial savings. As a result, the savers themselves decide to exchange their money rather than hold it.

The Plight of Labor

Since World War II, across all income groups, the available savings have been increasingly *invested*. But these investments now serve two objectives: to earn revenue and to protect savings against price inflation. The consequence has been a shift in the appreciation of labor (the quintessential nondurable good) as compared to real-estate and to the shares of companies quoted on stock markets (the quintessential durable goods). In a price-inflationary environment, labor tends to become *less important* in comparison to durable material goods. Its subjective value diminishes in the eyes of all market participants.

Indeed, under price inflation, durable goods serve as a hedge against the diminishing purchasing power of money. The prices of these goods therefore tend to rise *relative to what they would have been* without price inflation. They also tend to rise relative to the prices of all goods that are less durable, not only labor, unless there are attenuating circumstances. As a consequence, it takes more years of work to buy a house or car in a price-inflationary environment. Empirically, since the dissolution of the Bretton Woods system, the purchasing power of labor has diminished in terms of durable goods (see Hülsmann 2014a; Dorobăț 2015).

These deleterious effects are compounded by the Cantillon effects of money production. The latter typically benefit white-collar professions in and around the financial sector (both in terms of capital incomes and wages) at the expense of professions removed from that sector. Blue-collar wages, which are typically earned in activities removed from financial markets, are therefore the prime casualties of inflationist policies.

To sum up, inflation targeting and similar expansionary monetary policies raze the wealth effects of cash savings, and this concerns all money users. These policies also devastate some of the wealth effects of invested savings, and this especially concerns all wage earners, whose purchasing power tends to fall in terms of durable goods. The experience of the past fifty years illustrates these tendencies.

The Fight against Price Deflation

The foregoing considerations shed new light on one of the most important justifications of monetary interventionism; namely, the fight against price deflation. In an economy unhampered by expansionist monetary policy, the general tendency is for prices to fall (see pp. 153ff.). In such a price-deflationary environment, there are strong incentives for cash saving, and the value of durable goods tends to fall relative to the value of nondurable goods. Cash savings entail side-effect benefits for all money users, and decreasing prices for nondurable goods go hand in hand with wealth effects favoring wage earners. The fight against price deflation eliminates these side-effect goods. Whatever the merits of anti-deflation policies may be on other grounds, therefore, they have very negative consequences for the gratuitous goods enjoyed by employees. And they are out-right devastating for all people whose only source of income is the labor of their own hands.

1For the general question of whether interventionism is likely to entail any side-effect goods on its own, see the earlier discussion on pp. 285ff.

2See Rothbard ([1962] 1993, chap. 10) and also Armentano (1986, 1990), Hoppe ([1989] 2010, chap. 9), Salin (1995), and Salerno, Dorobăț, and McCaffrey (2021).

3The parallel features of legal and monetary orders have been stressed by the Italian legal scholar Bruno Leoni ([1961] 1991). See also Benson ([1990] 2011).

4See Hülsmann (2008a, pp. 193ff.). Rather than speaking of orders and systems, Hayek (1973) used the terms *cosmos* and *taxis*. From our point of view, it appears to be important to emphasize that a system (or *taxis*) does not cease to be part of the overarching order. A system is an order that is hampered by interventionism. A system is always built on (and parasitical on) the underlying order. The most famous poetic expression of a system is the One Ring in Tolkien's *Lord of the Rings*.

5Xavier Martin (2003) has documented this process very thoroughly for the case of the origin of the Code Napoléon, the first French civil law code.

6Copyrights and trademarks do not prevent anyone from learning and from applying that knowledge. We can therefore neglect them here.

7For general surveys of the nineteenth-century debate on patents, see Machlup and Penrose (1950) and Lemennicier (1997). See also the texts collected in Sagot-Duvauroux (2002).

8This mirrors a general feature of all public enterprise. Government-run

organizations usually fail unless two conditions are simultaneously met: (1) the services they provide must be essential services (such as money, transport, utilities, and communication) and (2) the organization must have a monopoly.

9Rationality traps are usually unintended. The authorities would rather avoid them, but they inescapably result from monetary interventions.

10See also our previous works on this neglected topic, Hülsmann (2008, chap. 13) and Hülsmann (2013, chap. 10).

11This is why a well-rounded education cannot just consist in mathematical training. It must be rooted first and foremost in the letters.

12Hayek (1973, chap. 1, pp. 31ff.) argued that extreme forms of "constructivist rationalism" regularly lead to a revolt against reason. Voegelin ([1952] 1959, VI, 2) has similarly argued that the pursuit of fallacious constructions of reality (dreamworlds) in constructivist rationalism was a distinctive feature of neognosticism.

13Toward the end of the nineteenth century, Carl Knies briefly commented on the relationship between the credit market and the rise of shareholder capitalism, yet without any reference to monetary interventionism. Knies (1879) highlighted the rise of a new type of leader who worked with "other people's money" and who was not only important in business, but also in politics. These new leaders distinguished themselves by "a busy work energy, organizational talent, the ability to 'command,' perspicacity, a quick and unscrupulous will, and the ability to forecast future events" (p. 187). Knies then went on to stress that these men, precisely because they borrowed money in order to get rich quick, had contributed to "spreading that commercial ('practical') view of human life, according to which all things and services find their measure of value in what money they bring in, now or very soon" (p. 188).

14General discussions of the impact of monetary policy on the labor market can be found in Hutt ([1930] 1954, [1939] 2011), Mises ([1949] 1998, chap. 21), Hazlitt (1960), Rothbard ([1962] 1993, pp. 522–28), Herbener (1992), Sennholz (1987), and Hülsmann (2013, chaps. 3–5).

15By the same token, price-inflation also encourages the hoarding of nonmonetary goods. Shaw (1973) and McKinnon (1973) have studied this phenomenon in high-inflation African countries, but the principle also holds in low-inflation settings. This sort of hoarding goes hand in hand with negative real-income effects, both in the long run and in the short run (see Friedman 1969).

Conclusion

Starting from Benedict XVI's encyclical *Caritas in veritate*, we set out on a long intellectual journey that led us to outline an economic theory of gratuitous goods. Our motivation was to integrate this theory into the larger edifice of political economy.

In this endeavor, we have been able to rely on several important predecessors. In the nineteenth century, Frédéric Bastiat was a strong voice in highlighting the gratuitous benefits resulting from private property and free markets. Among twentieth-century authors, Ludwig von Mises, Josef Pieper, and Kenneth Boulding were the most helpful sources on which we could rely. But the bulk of the work still had to be done. We have made some headway in the present volume, even though we cannot claim to have exhausted our subject.

The main difficulty was to overcome the presuppositions engrained in the conventional literature. The development of the theory of gifts has been greatly hampered by Marcel Mauss's influential work, which purported to disprove the very possibility of pure gifts, as well as their desirability. Similarly, the beneficial side effects springing from for-profit activities on the market have been underappreciated, not only because of Aristotle's nefarious equivalence postulate, but also because contemporary economists have gone to great lengths in order to *not* notice these side effects, or to explain them away as market failures, as deviations from the (false) ideal of complete markets.

We have defined gratuitous goods as goods that are received or provided in excess of legitimate claims and obligations. A gratuitous good cannot be defined in physical or technical terms. It needs to be defined in reference to the moral-juridical notion of private-property rights. We have furthermore argued that donations fall into a basic economic category of their own, very much like the Mengerian concept of capital. We have studied the interdependence between markets and donations, highlighting the crucial roles of the virtues and of inheritance. We have also seen that a free economy is infused with various forms of gratuitous goods that come about as side effects of other activities. In particular, market competition itself is an important vehicle of such gratuitous side effects, which most notably spring from savings and from the pricing process.

Last but not least, we have come to conclude that gratuitous goods tend to grow and shrink more strongly than the market. In a free economy, donations and side-effect goods flourish when the market grows, but even more so than the market, because of the saturation effects of increased capital accumulation. Similarly, when market activity stagnates or declines, then donations and side-effect goods drop, too, but even more so.

In short, gratuitous goods blossom in the context of a free society and a free market. This is a fairly original result by the standards of present-day scholarship, but its originality is largely due to the fact that most of the scholars working in the field are blissfully ignorant of the side effects of market exchange and, especially, of the nature and effects of government interventionism. Many authors suspect economic freedom of encouraging irresponsibility, indifference, coldheartedness, and rugged individualism. And there is no doubt that we have plenty of these problems in our world today. But economic freedom is not their cause.

The gratuitous production of economic goods is liable to be limited by a number of factors. Gifts can be perverted into compensation for services rendered. Beneficial side effects of human action can to some extent be privatized. There is fraud and violence. There is quackery. But the greatest threat to the gratuitous economy is government interventions. By their very nature, the latter *cannot* provide genuinely gratuitous services. Moreover, they undermine private donations by impairing the ability and willingness of households and firms to make donations. They encourage the abuse of gifts and facilitate the coercive privatization of side-effect goods. Permissive interventions with the help of the monetary printing press are especially harmful. They enable financial leveraging on a massive scale and thereby increase the opportunity costs of donations. And they also entail a momentous redistribution of wealth from the haves to the have-nots, bringing into being a caste of philanthro-capitalists (or rather philanthro-cronies, as we have argued) with inordinate and nefarious influence on public policy.

State interference has always thrived on the prospect of getting something for nothing. Bastiat hit this nail on its head when he defined the state as "the great fiction by which everybody seeks to live at the expense of everybody else." It is a fiction. Modern government is a black hole for gratuitous goods. It does not operate gratuitously, but in all its activities is deeply interested in its own survival and flourishing. The main beneficiaries of the state are its own servants, especially its bureaucratic and political leadership, whereas it systematically destroys the true sources of gratuitous goods: families, friendship, private associations, businesses, and the market

process.

Many present-day scholars of the gift economy, the nonprofit sector, and related subjects ignore these facts. When they set out to interpret human behavior inside and outside of today's markets, they wrongly *presuppose* that they are dealing with a regime of pure and perfect economic liberty. And thus they fall prey to fateful categorical mistakes in ascribing causes, consequences, and responsibilities. They chide private property and economic freedom for the flaws that, in fact, result from interventionism.

This error is not new. It has plagued many thinkers and intellectual movements that sought to rectify social and economic excesses yet failed to identify interventionism as the root cause.

The problem was already manifest in the social philosophy of Plato and Aristotle. They observed that markets and finance were growing without any visible limitation. But they dealt with all questions relating to money and finance in an extremely superficial way. As a consequence, they did not understand the causes of this cancerous growth. Aristotle argued that the return on capital had no natural limits. A free market would lead to a more or less automatic and unbounded multiplication of capital. The quest for profits was unlimited as such, and capital was therefore bound to be growing by the day. For-profit activities were by their very nature disorderly.

However, Aristotle's reasoning is fallacious. Investments do not automatically multiply the capital of the investor. In practice, the accumulation of capital is severely limited by robbery, fraud, expropriation, and investment errors. But most importantly, as we have seen in the preceding pages, in a genuine market economy, the accumulation of capital is subject to a powerful saturation mechanism. The more capital is invested, the lower tends to be the expected return. Things only change, and rather radically, when inflationary monetary policies facilitate financial leveraging. In an inflationary regime, the "commercial acquisition of money" (Aristotle's expression) is indeed disorderly and becomes unbounded.

We may therefore say: Aristotle's intuition was correct, but his explanation was flawed. The Athens of his day featured a very strong monetary interventionism and, therefore, a very elastic scriptural money supply (see Cohen 2011). The disorder and cancerous growth he saw in market activities was indeed that of an inflationary economy.

In the 1920s and 1930s, the same misconception plagued the intellectual movement called distributism. G. K. Chesterton and Hilaire Belloc were right on target with their observation that the post-Christian world relentlessly tended toward centralization and dependence, a

condition which Belloc called the servile state. He also perceived that, in the UK, this process was reinforced through the revolution of property rights under Henry VIII, who expropriated the church and greatly magnified the landholdings of the aristocracy (see Belloc 1912, section 4). However, Belloc completely misapprehended the process that would entail ever further centralization, concentration, and dependence. As he had it, the initial wealth of the robbers automatically fed on itself (pp. 72–77). A momentous error! In a free-market economy, the initial *size* of individual wealth does not at all determine how it will develop. There is no economic law according to which the big capitalists necessarily grow ever bigger in a free economy.

Another notorious case featuring the same error is Karl Polanyi's explanation of what he called the great transformation of modern economies. Polanyi (1944, chap. 6) held that this great transformation was rooted in the fallacious idea of elevating private-property rights into a universal principle. He pointed out that this had never been the case in the past: before the Industrial Revolution, private property had always been strictly "regulated"—the political authorities always had manifold possibilities to coerce property owners into behaving in a certain way. Then came the nineteenth century, and all the chains and fetters were taken off the private-property beast, which subsequently grew by leaps and bounds and eventually subjected all people and all resources to its will. People, land, and money were turned into "fictitious commodities." Society itself was turned into a "market society" and absorbed by the insatiable market process.

Polanyi affirms his central conviction not in the form of an argument, but in the form of an assertion. In Polanyi's book, as in Aristotle and in distributism, there is no discussion—not even the slightest sign of any awareness—of the problems of monetary interventionism. Polanyi and Belloc fell prey to the same error as Karl Marx. They confused the economic laws of interventionist systems with the laws governing a free society. Some thirty years ago, HansHermann Hoppe ([1993] 2006, chap. 4) dissected this logical error in a brilliant essay which is still not known widely enough.

As we have seen, markets may indeed grow like cancer and swallow friendship, community, selfless dedication, and gifts on the way. But these are not natural markets, but markets inflated by monetary interventions. Unless this categorical difference is recognized, there is little hope of making any progress in the economics of gratuitous goods. Monetary interventionism profoundly uproots and perverts the operation of a natural

economy, not least of all with respect to donations of time and money, and with respect to the side effects of market exchange. If the present book does no more than bring this problem to the attention of a wider public, it will have fulfilled its mission.

References

Acemoglu, Daron, and James A. Robinson. 2019. *The Narrow Corridor: States, Societies, and the Fate of Liberty.* New York: Penguin Press.

Acton, H. B. 1993. *The Morals of Markets and Related Essays.* Indianapolis, IN: Liberty Fund.

Akerlof, George A. 1982. "Labor Contracts as Partial Gift Exchanges." *Quarterly Journal of Economics* 97 (4): 543–69.

Al-Ubaydli, Omar, and Terence Kealey. 2000. "Endogenous growth theory: a critique." *Economic Affairs* 20 (3): 10–13.

Andreoni, James. 1989. "Giving with Impure Altruism: Applications to Charity and Ricardian Equivalence." *Journal of Political Economy* 97 (6): 1447–58.

———. "Charitable Giving." 2018. In *The New Palgrave Dictionary of Economics,* 3rd ed. London: Palgrave Macmillan.

Andreoni, James, and A. Abigail Payne. 2003. "Do Government Grants to Private Charities Crowd Out Giving or Fundraising?" *American Economic Review* 93 (3): 792–812.

———. "Charitable Giving." 2013. *Handbook of Public Economics.* Vol. 5. New York: Russell Sage Foundation.

Appéré, Gildas. 2004. "L'évaluation des actifs à usage récréatif: la méthode contingente des coûts de transport." *Revue d'Économie Régionale and Urbaine* 1: 81–106.

Aquinas, Thomas. [1259–65] 2009. *Summa contra Gentiles.* Darmstadt: Wissenschaftliche Buchgesellschaft.

———. 1948. *Summa Theologica,* 5 vols. New York: Benziger Bros.

———. 1949. *On Kingship, to the King of Cyprus.* Toronto: Pontifical Institute of Medieval Studies.

Ardrey, Robert. 1967. *The Territorial Imperative: Personal Inquiry into the Animal Origins of Property and Nations.* New York: Harper Collins.

Aristotle. 1893. *Nichomachean Ethics.* Translated by F. H. Peters. 5th ed. London: Kegan Paul, Trench, Trübner.

———. 1995. *Philosophische Schriften.* Darmstadt: Wissenschaftliche Buchgesellschaft.

Armentano, Dominick T. 1986. *Antitrust Policy: The Case for Repeal.* Washington, DC: Cato Institute.

———. 1990. *Antitrust and Monopoly.* Oakland, CA: Independent Institute.

Arrow, Kenneth J. [1953] 1964. "The Role of Securities in the Optimal Allocation of Risk Bearing." *Review of Economic Studies* 31 (2): 91–96.

———. 1969. "The Organization of Economic Activity: Issues Pertinent to the Choice of Market versus Non-Market Allocation." In *The Analysis and Evaluation of Public Expenditures: The PPB System.* Washington, DC: Joint Economic Committee.

———. [1972] 1975. "Gifts and Exchanges." In *Altruism, Morality, and Economic Theory*, Edmund S. Phelps, ed. New York: Russell Sage Foundation.

Attias-Donfut, Claudine, Jim Ogg, and François-Charles Wolff. 2005. "European Patterns of Intergenerational Financial and Time Transfers." *European Journal of Ageing* 2: 161–73.

Augustine. 1953. *Earlier Writings.* Louisville: Westminster John Knox Press.

———. 1993. *The City of God*. New York: Modern Library.

Ayittey, George. 1991. *Indigenous African Institutions.* Ardsley-on-Hudson: Transnational Publishers.

Baader, Roland. 2022. *Totgedacht: Warum Intellektuelle unsere Welt zerstören.* Gräfelfing: Resch.

Bagus, Philipp. 2006. "Wresting Land From the Sea: An Argument Against Public Goods Theory." *Journal of Libertarian Studies* 20 (4): 21–40.

———. 2015. *In Defence of Deflation.* Berlin: Springer.

Balzac, Honoré de. [1838] 1985. *Les employés.* Paris: Folio.

Bank for International Settlements. 2013. *Agreement between the Swiss Federal Council and the Bank for International Settlements to Determine the Bank's Legal Status in Switzerland.* Basel: Bank for International Settlements.

Barry, Norman. 1991. *The Morality of Business Enterprise.* Aberdeen: Aberdeen University Press.

———. 1998. *Business Ethics.* London: Routledge.

Bartholomew, James. [2004] 2014. *The Welfare State We're In.* London: Politico's.

Barzun, Jacques. 2000. *From Dawn to Decadence.* New York: Harper Collins.

Bassani, Luigi Marco. 2021. *Chaining Down Leviathan: The American Dream of Self-Government 1776–1865.* McClellanville, SC: Abbeville Institute.

Bassi, Daniella. 2021. "Many Tribal Hunting and Foraging Grounds Were Private Property." *Mises Wire* (September 2). https://mises.org/wire/native-americans-had-lot-more-private-property-you-think.

Bastiat, Frédéric. [1848] 1995. *Selected Essays on Political Economy.* Irvington-on-Hudson, NY: Foundation for Economic Education.

———. 1850. *Gratuité du crédit : discussion entre M. Fr. Bastiat et M. Proudhon.* Paris: Guillaumin.

———. [1851] 1996. *Economic Harmonies.* Irvington-on-Hudson, NY: Foundation for Economic Education.

———. 2007. "Economic Sophisms—First Series." In Mark Thornton, ed. *The Bastiat Collection.* Vol. 1. Auburn, AL.: Mises Institute.

Bator, Francis M. 1957. "The Simple Analytics of Welfare Maximization." *American Economic Review* 47 (1).

———. 1958. "Anatomy of Market Failure." *Quarterly Journal of Economics* 72: 22–59.

Batthyany, Philipp. 2021. *Thrasymachos:* "*Der Glücklichste ist der Tyrann.*" Berlin: Duncker and Humblot.

Bauer, Peter. 2000. *From Subsistence to Exchange and Other Essays.* Princeton, NJ: Princeton University Press.

Baumol, William J. 1965. *Welfare Economics and the Theory of the State.* 2d ed. London: Bell.

Becker, Gary S. 1965. "A Theory of the Allocation of Time." *Economic Journal* 71 (299): 493–517.

———. 1974. “A Theory of Social Interactions.” *Journal of Political Economy* 82 (6): 1063–93.

Belloc, Hilaire. 1912. *The Servile State.* London and Edinburgh: Foulis.

Benda, Julien. [1927] 2003. *La trahison des clercs.* Paris: Grasset.

Benedict XVI. 2005. *Deus Caritas Est.* Vatican City: Libreria Editrice Vaticana.

———. 2009. *Caritas in Veritate.* Vatican City: Libreria Editrice Vaticana.

Bennet, James T., and Thomas J. DiLorenzo. 1989. *Unfair Competition: The Profits of Nonprofits.* Lanham, MD: Hamilton Press.

Benson, Bruce L. [1990] 2011. *The Enterprise of Law.* Oakland, CA: Independent Institute.

Berggren, Henrik, and Lars L.Trägårdh. [2006] 2016. *Ist der Schwede ein Mensch?* Munich: BTB Verlag.

———. 2011. “Social trust and radical individualism.” In *Shared Norms for the New Reality: The Nordic Way.* Stockholm: Global Utmaning.

Bergson, Henri. [1932] 1935. *The Two Sources of Morals and Religion.* London: Macmillan.

Berle, Adolph A., and Gardiner Means C. 1933. *The Modern Corporation and Private Property.* New York: Macmillan.

Bernays, Edward. 1928. *Propaganda.* New York: Liveright.

Berta, Nathalie. 2017. “On the Definition of Externality as a Missing Market.” *European Journal of the History of Economic Thought* 24 (2): 287–318.

Beveridge, William. 1942. *Social Insurance and Allied Services.* London: HMSO.

Bidadanure, Juliana U. 2019. “The Political Theory of Universal Basic Income.” *Annual Review of Political Science* 22: 481–501.

Blankertz, Stefan. 1989. *Legitimität und Praxis: Öffentliche Erziehung als pädagogisches, soziales und ethisches Problem.* Wetzlar: Büchse der Pandora.

———. 2001. *Das libertäre Manifest.* Grevenbroich: Lichtschlag. Block, Walter. [1976] 2018. *Defending the Undefendable,* 2d ed. Auburn, AL.: Mises Institute.

———. 1983. "Public Goods and the Case of Roads." *Journal of Libertarian Studies* 7 (1): 1–34.

———. 2019. *Property Rights: The Argument for Privatization*. London: Palgrave Macmillan.

Block, Walter, and Peter Lothian Nelson. 2016. *Water Capitalism: The Case of Privatizing Oceans, Rivers, Lakes, and Aquifiers.* London: Lexington Books.

Block, Walter, and Ivan Jankovic. 2016. "Tragedy of the Partnership: A Critique of Elinor Ostrom." *American Journal of Economics and Sociology* 75: 289–318.

Böckenförde, Ernst-Wolfgang. 1976. *Staat, Gesellschaft, Freiheit.* Frankfurt: Suhrkamp.

Boettke, Peter J., and Christopher J. Coyne. 2008. "The Political Economy of the Philanthropic Enterprise." In Gordon E. Shockley, Peter M. Frank, and Roger R. Stough, eds. *Non-market Entrepreneurship: Interdisciplinary Approaches.* Cheltenham, UK: Edward Elgar.

Boettke, Peter J., and David L. Prychitko. 2004. "Is an Independent Nonprofit Sector Prone to Failure? Toward an Austrian School Interpretation of Nonprofit and Voluntary Action." *Conversations on Philanthropy* 1:1–40.

Böhm-Bawerk, Eugen von. [1889] 1891. *Positive Theory of Capital.* London: Macmillan.

———. 1914. "Macht oder ökonomisches Gesetz." *Zeitschrift für Volkswirtschaft* 23: 205–71.

Böhm, Volker, and Hans Haller. 2018. "Demand Theory." In Steven N. Durlauf and Lawrence E. Blume, eds. *The New Palgrave Dictionary of Economics,* 3rd ed. London: Macmillan.

Bohm, Peter. 2018. "External Economies." In Steven N. Durlauf and Lawrence E. Blume, eds. *The New Palgrave Dictionary of Economics,* 3rd ed. London: Macmillan.

Bois-Reymond, Emil Heinrich du. 1870. *Über den deutschen Krieg.* Berlin: August Hirschwald.

Boldrin, Michele, Mariacristina De Nardi, and Larry T. Jones. 2015. "Fertility and Social Security." *Journal of Demographic Economics* 81 (3): 261–99.

Boldrin, Michele, and David K. Levine. 2008. *Against Intellectual Monopoly.* New York: Cambridge University Press.

Bolick, Clint. 2004. *Leviathan.* Stanford, CA: Hoover Institution Press.

Bostaph, Samuel. 2015. *Andrew Carnegie: An Economic Biography.* London: Lexington.

Bouillon, Hardy. 2011. *Business Ethics and the Austrian Tradition in Economics.* London: Routledge.

Boulding, Kenneth E. 1973. *The Economy of Love and Fear: A Preface to Grants Economics.* Belmont, CA: Wadsworth.

Bourdieu, Pierre. [1997] 2000. *Pascalian Meditations.* Cambridge: Polity Press.

Brague, Rémi. 1999. *Europe, la voie romaine.* Paris: Folio essais.

Braun, Eduard. 2012. "The Subsistence Fund in Ludwig von Mises's Explanation of the Business Cycle." In Jörg Guido Hülsmann, ed. *Theory of Money and Fiduciary Media: Essays in Celebration of the Centennial.* Auburn, AL: Mises Institute.

———. 2014. *Finance Behind the Veil of Money.* West Palm Beach, FL: Liberty.me.

———. 2015. "Carl Menger's Contribution to Capital Theory." *History of Economic Ideas* 23 (1): 77–99.

———. 2017. "The Theory of Capital as a Theory of Capitalism." *Journal of Institutional Economics* 13 (2): 305–25.

———. 2020. "Capital as in Capitalism, or Capital as in Capital Goods, or Both?" *Review of Austrian Economics* 33: 383–95.

Brocker, Manfred. 1992. *Arbeit und Eigentum.* Darmstadt: Wissenschaftliche Buchgesellschaft.

Bruni, Luigi, and Stefano Zamagni. 2007. *Economia civile: Efficienza, equità, felicità pubblica.* Bologna: Il Mulino.

———. 2004. *Civil Economy: Efficiency, Equity, Public Happiness.* Berlin: Peter Lang.

Brunner, Otto. 1942. *Land und Herrschaft.* Vienna: Rohrer.

Buchanan, James M. 1969. "External Diseconomies, Corrective Taxes and Market Structure." *American Economic Review* 59: 174–76.

Burckhard, Hugo. 1899. *Zum Begriff der Schenkung.* Erlangen: Palm and Enke.

Bureau of Labor Statistics. 2014. *Average annual expenditures on gifts of goods and services in 2013.* Washington DC: US Dept. of Labor. BLS News Release (December 4).

Burleigh, Anne Husted, ed. 1973. *Education in a Free Society.* Indianapolis, IN: Liberty Fund.

Butler, Joseph. [1726] 1841. *Fifteen Sermons.* London: Tegg.

Caillé, Alain. 1994. *Don, intérêt et désintéressement.* Paris: La Découverte.

Callataÿ, Damien de. 2011. *Le pouvoir de la gratuité: L'échange, le don, la grâce.* Paris: L'Harmattan.

Campbell, John Y. 2006. "Household Finance." *Journal of Finance* 61 (4): 1553–1604.

Cantillon, Richard. 1997. *La nature du commerce en général.* Paris: Institut national d'études démographiques.

Caplan, Bryan. 2018. *The Case Against Education.* Princeton, NJ: Princeton University Press.

Carey, Henry Charles. 1837. *Principles of Political Economy.* Philadelphia: Carey, Lea and Blanchard. Vol. 1.

———. 1851. *Harmony of Interests.* Philadelphia: Skinner. Carnegie, Andrew. 1901. *Gospel of Wealth.* New York: Century.

Cates, Diana Fritz. 2012. "Love: A Thomistic Analysis." *Journal of Moral Theology* 1 (2): 1–30.

Chafuen, Alejandro A. 2003. *Faith and Liberty.* Lanham, MD: Lexington Books.

Chesterton, Gilbert Keith. 1927. *Outline of Sanity.* Leipzig: Tauchnitz.

Clark, Colin. 1954. *Welfare and Taxation.* Oxford: Catholic Social Guild.

Coase, Ronald H. 1960. "The Problem of Social Cost." *Journal of Law and Economics* 3: 1–44.

———. 1974. "The Lighthouse in Economics." *Journal of Law and Economics* 17 (2): 357–76.

Cogan, John F. 2017. *The High Cost of Good Intentions: A History of U.S. Federal Entitlement Programs.* Stanford, CA: Stanford University

Press.

Cohen, Daniel D. 2012. *Homo economicus, prophète (égaré) des temps nouveaux*. Paris: Albin Michel.

Cohen, Edward E. 2011. "The Elasticity of the Money Supply at Athens." In W. V. Harris, ed. *The Monetary Systems of the Greeks and Romans.* Oxford: Oxford University Press.

Comte, Auguste. 1851. *Traité de sociologie.* Paris: Mathias. Vol. 1.

Cordato, Roy. [1992] 2007. *Efficiency and Externalities in an Open- Ended Universe.* Auburn, AL: Mises Institute.

Cornuelle, Richard. 1965. *Reclaiming the American Dream.* New York: Random House.

Creveld, Martin van. 1999. *The Rise and Decline of the State.* New Brunswick, NJ: Transaction.

Dalrymple, Theodore. 2005. *Our Culture, What's Left of It: The Mandarins and the Masses*. Chicago: Ivan R. Dee.

———. 2003. *Life At Bottom: The Worldview That Makes the Underclass.* Chicago: Ivan R. Dee.

Dao, Mai C. 2020. *Wealth Inequality and Private Savings: The Case of Germany.* IMF Working Paper WP/20/107.

Debreu, Gérard. 1959. *Theory of Value*. New Haven, CT: Yale University Press.

Degner, Jeffery. 2019. "Family Formation, Fertility, and Failure: A Literature Review on Price Increases and Their Impact on the Family Institution." *Quarterly Journal of Austrian Economics* 22, (2): 218–41.

Derrida, Jacques. 1991. *Donner le temps: La fausse monnaie.* Paris: Galilé.

Deutsche Bundesbank. 2019. "Vermögen und Finanzen privater Haushalte in Deutschland: Ergebnisse der Vermögensbefragung 2017." *Monatsbericht* (April): 13–44.

Doncaster, David, and John Hughes. 1996. "Governance and Control for Not-For-Profit Organizations." *The Philanthropist* 13 (3): 45–51.

Dooley, Peter C. 2005. *The Labor Theory of Value.* London: Routledge.

Douglas, Mary. [1925] 2002. *The Gift.* London: Routledge.

Dreher, Axel, and Friedrich Schneider. 2006. "Corruption and the Shadow

Economy: An Empirical Analysis." *Public Choice* 144 (1): 215–38.

Dun, Frank van. [1983] 2008. *Het Fundamenteel Rechtsbeginsel*. Antwerpen: Rothbard Instituut.

———. 2017. "Praxeology and the Law." In *Bruno Leoni—Per un liberalismo integrale.* R. A. Modugno and D. Thermes, eds. Soveria Mannelli: Rubbettino.

Dupeyroux, Jean-Jacques. 1995. *Contribution à la théorie générale de l'acte à titre gratuit.* Paris: Librairie générale de droit et de jurisprudence.

Durkheim, Émile. [1893] 2013. *De la division du travail social.* Paris: Presses Universitaires de France.

Eabrasu, Marian. 2019. *Moral Disagreements in Business.* Berlin: Springer.

Earle, Peter C., ed. 2020. *Coronavirus and Economic Crisis*. Great Barrington, MA: American Institute for Economic Research.

Ebeling, Richard E. 2019. "The Secret History of the Monopolization of Welfare by the State." *American Institute for Economic Research.* aier.org (9 September).

Eckhardt, Giana M., and Fleura Bardhi. 2015. "The Sharing Economy Isn't about Sharing At All." *Harvard Business Review* (January 28).

Eliade, Mircea. [1957] 1990. *Das Heilige und das Profane.* Frankfurt: Suhrkamp.

Ellul, Jacques. [1975] 1978. *The Betrayal of the West.* New York: Seabury Press.

Elster, Jon. 2010. *Le désintéressement, traité critique de l'homme économique.* Paris: Le Seuil. Vol. 1.

Engels, Wolfram. 1996. *Der Kapitalismus und seine Krisen.* Stuttgart: Schäffer-Poeschel.

Esfeld, Michael. 2023. *Land ohne Mut: Eine Anleitung für die Rückkehr zu Wissenschaft und Rechtsordnung*. Berlin: Achgut-Edition.

Farchy, Joëlle, Cécile Méadel, and Guillaume Sire. 2015. *La gratuité, à quel prix?* Paris: Presses des Mines.

Fegley, Tate, and Karl-Friedrich Israel. 2020. "The Disutility of Labor." *Quarterly Journal of Austrian Economics* 23 (2): 171–79.

Ferguson, Niall. 2021. "I'm Helping to Start a New College because

Higher Ed Is Broken." *Bloomberg Opinion* (November 8).

Ferry, Luc. 2016. *7 façons d'être heureux*. Paris: Xo Editions.

Fetter, Frank. 1977. *Capital, Interest, and Rent: Essays in the Theory of Distribution*. Kansas City: Sheed Andrews and McMeel.

Finn, Chester E. 1998. "Giving It Away: An Open Letter to Bill Gates." *Commentary* (January).

Fisher, Irving. 1928. *The Money Illusion.* New York: Adelphi.

Follert, Florian. 2020. "Improving the Relationships between Citizens and Politicians: Some Economic Remarks from an Agency Perspective." *Munich Social Science Review* 3: 33–46.

Foss, Nicolas J., and Peter G. Klein. 2012. *Organizing Entrepreneurial Judgment*. New York: Cambridge University Press.

Francis. 2020. *Fratelli Tutti.* Vatican City: Libreria Editrice Vaticana

———. 2015. *Laudato Si.* Vatican City: Libreria Editrice Vaticana.

Frank, Thomas. 2008. "Exploring the Boundaries of Law in the Middle Ages: Franciscan Debates on Poverty, Property, and Inheritance." *Law and Literature* 20 (2): 243–60.

Frankfurt, Harry G. [2005] 2009. *On Bullshit.* Princeton, NJ: Princeton University Press.

Frankl, Viktor E. [1979] 2005. *Der Mensch vor der Frage nach dem Sinn.* Munich: Piper.

———. [1977] 1992. *Man's Search for Meaning.* Boston: Beacon.

Frey, Bruno S., and Margit Osterloh. 2016. "Aleatoric Democracy." CESifo Working Paper, no. 6229.

Friedman, Milton. 1969. *The Optimum Quantity of Money and Other Essays.* London: Macmillan.

———. 1970. "The Social Responsibility of Business Is to Increase Its Profits." *New York Times Magazine* (September 13).

Garrison, Roger. 2001. *Time and Money.* London: Routledge.

Gbedolo, Catherine. 2015. *Économie de la gratuité.* Doctoral dissertation. Université d'Angers.

Gerloff, Wilhelm. [1932] 1947. *Die Entstehung des Geldes und die Anfänge*

des Geldwesens. 3rd ed. Frankfurt/Main: Klostermann.

Gertchev, Nikolay. 2023. *The Evolution of Banking Regulation in the European Union: An Economic Approach.* Lanham, MD: Lexington Books.

Gilder, George. 1981. *Wealth and Poverty.* New York: Basic Books.

Gill, Anthony, and Michael D. Thomas. 2022. "The dynamic efficiency of giving." *Journal of Institutional Economics* 19 (1): 1–16.

Gimpel, Jean. 1975. *La révolution industrielle du Moyen Âge.* Paris: Seuil.

Girard, René. [1982] 1986. *The Scapegoat.* Baltimore, MD: Johns Hopkins University Press.

———. *Le sacrifice.* 2004. Paris: Bibliothèque nationale de France.

———. 2005. "La pierre rejetée par les bâtisseurs." *Théologiques* 13 (2): 165–79.

Gosden, Peter H. J. H. 1961. *The Friendly Societies in England, 1815– 1875.* Manchester, UK: Manchester University Press.

Gottfried, Paul E. 2001. *After Liberalism: Mass Democracy in the Managerial State.* Princeton, NJ: Princeton University Press.

Graeber, David. 2018. *Bullshit Jobs.* New York: Simon and Schuster.

Grant, Edward. 1996. *The Foundations of Modern Science in the Middle Ages.* Cambridge, UK: Cambridge University Press.

———. 2001. *God and Reason in the Middle Ages.* Cambridge, UK: Cambridge University Press.

Green, David G. 1985. *Working Class Patients and the Medical Establishment.* Aldershot, UK: Gower.

———. 1993. *Reinventing Civil Society: The Rediscovery of Welfare without Politics.* London: Institute of Economic Affairs.

Greenwald, Bruce C., and Joseph E. Stiglitz. 1986. "Externalities in Economics with Imperfect Information and Incomplete Markets." *Quarterly Journal of Economics* 101 (2): 229–64.

Gregory, Chris A. 1982. *Gifts and Commodities.* London: Academic Press.

Grice, Paul. 1989. *Studies in the Way of Words.* Cambridge, MA: Harvard University Press.

Gui, Benedetto. 2000. "Beyond Transactions: On the Interpersonal Dimension of Economic Reality." *Annals of Public and Cooperative Economics* 71 (2): 139–69.

Guilluy, Christophe. 2014. *La France périphérique.* Paris: Flammarion.

Habermann, Gerd. [1994] 2013. *Der Wohlfahrtsstaat.* München: Finanzbuch-Verlag.

———. 2017. *Über die soziale Wärme des Kapitalismus.* Berlin: author's print.

Haidt, Jonathan. 2006. *The Happiness Hypothesis.* New York: Basic Books.

Halbertal, Moshe. 2012. *On Sacrifice.* Princeton, NJ: Princeton University Press.

Haller, Carl Ludwig von. [1820] 1964. *Restauration der Staatswis-senschaft.* Reprint of the 2d ed. Aalen: Scientia Verlag.

Harris, Stephen, and Byron L. Grigsby, eds. 2007. *Misconceptions about the Middle Ages.* London: Routledge.

Hatcher, Daniel L. 2016. *The Poverty Industry.* New York: New York University Press.

Hayek, Friedrich A. [1946] 1948. "The Meaning of Competition." In *Individualism and Economic Order.* Chicago: University of Chicago Press.

———. [1949] 1960."The Intellectuals and Socialism." In George B. Huszar, ed. *The Intellectuals: A Controversial Portrait.* Glencoe, Ill.: The Free Press.

———. 1966. "Résultats de l'action des hommes, mais non de leurs desseins." In Ernest M. Claassen, ed. *Les fondements philosophiques des systèmes économiques, textes de Jacques Rueff et essais rédigés en son honneur.* Paris: Fayot.

———. 1973. *Law, Legislation, and Liberty.* Vol. 1. *Rules and Order.* Chicago: University of Chicago Press.

———. 1976. *Law, Legislation, and Liberty.* Vol. 2. *The Mirage of Social Justice.* Chicago: University of Chicago Press.

———. 1979. *Law, Legislation, and Liberty.* Vol. 3. *The Political Order of a Free People.* Chicago: University of Chicago Press.

———. 2002. "Competition as a Discovery Procedure." *Quarterly Journal*

of Austrian Economics 5 (3): 9–23.

Hazlitt, Henry, ed. 1960. *The Critics of Keynesian Economics.* Irvington-on-Hudson, NY: Foundation for Economic Education.

———. 1973. *The Conquest of Poverty.* Los Angeles: Nash.

Helm, D. R. 2018. "Elasticity of Substitution." *The New Palgrave Dictionary of Economics.* 3rd ed. London: Palgrave Macmillan.

Herbener, Jeffrey M. 1992. "The Fallacy of the Philipps Curve." In Mark Skousen, ed. *Dissent on Keynes.* New York: Praeger.

Hieber, Daniel W. 2017. "Praxeology and language: Social science as the study of human action." *History and Philosophy of the Language Sciences*. https://hiphilangsci.net/2017/05/04/praxeology-and-language-social-science-as-the-study-of-human-action.

Higgs, Robert. 2005. "The Republic of West Florida: Freedom Fight or Land Grab?" *The Freeman* (June).

Hobbes, Thomas. [1651] 1904. *Leviathan.* Cambridge, UK: Cambridge University Press.

Hodgson, Geoffrey M. 1998. *Economics and Institutions: A Manifesto for a Modern Institutional Economics.* Cambridge, UK: Polity Press.

Hoppe, Hans-Hermann. [1987] 2005. *Eigentum, Anarchie und Staat*. 2d ed. Leipzig: Manuscriptum.

———. [1993] 2006. *The Economics and Ethics of Private Property.* 2d ed. Auburn, AL: Mises Institute.

———. [1989] 2010. *A Theory of Socialism and Capitalism.* Auburn, AL: Mises Institute.

———. 2001. *Democracy: The God That Failed.* New Brunswick, NJ: Transaction.

———. ed. 2003. *The Myth of National Defense.* New Brunswick, NJ: Transaction.

———. 2021. *The Great Fiction.* 2d ed. Auburn, AL: Mises Institute.
Horváth, Alexander. 1929. *Thomas von Aquin und das Eigentumsrecht.* Graz: Ulrich Moser.

Hubert, Henri, and Marcel Mauss. [1899] 1964. *Sacrifice: Its Nature and Function.* Chicago: University of Chicago Press.

Huerta de Soto, Jesús. [1998] 2006. *Money, Bank Credit, and Economic Cycles.* Auburn, AL: Mises Institute.

Hughes, Alan. 2018. "Managerial Capitalism." *The New Palgrave Dictionary of Economics*. 3rd ed. London: Palgrave Macmillan.

Hughes, Mark D. 1991. "Middle Class Windfalls and the Poverty of the Welfare State." *The Philanthropist* 10 (4): 3–24.

———. 1990. "Counterpoint." *The Philanthropist* 9 (3): 43–56.

Hüllmann, Karl D. 1805. *Deutsche Finanz-Geschichte des Mittelalters.* Berlin: Erblich.

Hülsmann, Jörg Guido. 1993. *Kritik der Dominanztheorie.* Frankfurt: R. Fischer.

———. 1998. "Brauchen wir staatliche Armenhilfe?" *Aufklärung und Kritik.* Special feature 2.

———. 2000. "A Realist Approach to Equilibrium Analysis." *Quarterly Journal of Austrian Economics* 3 (4): 3–51.

———. 2001. "Bastiat's Legacy in Economics." *Quarterly Journal of Austrian Economics* 4 (4): 55–70.

———. 2002. "A Theory of Interest." *Quarterly Journal of Austrian Economics* 5 (4): 77–110.

———. 2003. "Introduction to the Third Edition: From Value Theory to Praxeology." In Ludwig von Mises, *Epistemological Problems of Economics.* 3rd ed. Auburn, AL: Mises Institute.

———. 2004. "The A Priori Foundations of Property Economics." *Quarterly Journal of Austrian Economics* 7 (4): 41–68.

———. 2006. "The Political Economy of Moral Hazard." *Politická ekonomie* 54 (1).

———. 2008a. *The Ethics of Money Production.* Auburn, AL: Mises Institute.

———. 2008b."The Production of Business Ethics." *Journal of Markets and Morality* 11(2): 275–99.

———. 2013. *Krise der Inflationskultur.* Munich: Finanzbuch-Verlag.

———. 2014a. "Fiat Money and the Distribution of Incomes and Wealth." In David Howden and Joseph T. Salerno, eds. *The Fed at One Hundred*

—A Critical View on the Federal Reserve System. Berlin: Springer-Verlag.

———. 2014b. "L'exclusion, le marché et l'État providence." *Liberté politique* 64: 51–62.

———. 2016. "Der Staat ist es, der für uferloses Ausbreiten der Bürokratie sorgt." *Hauptstadtbrief* 138: 43–46.

———. 2017. "L'analyse du taux d'intérêt." In Jean-Yves Naudet, ed. *Moralité et immoralité des revenus.* Aix-en-Provence: Presses Universitaires d'Aix-en-Provence.

———. 2018. "The Social Market Economy and the Sharing Economy in the Perspective of a Participatory Society." In P. Donati, ed. *Towards a Participatory Society: New Roads to Social and Cultural Integration.* Vatican City: Pontifical Academy of the Social Sciences.

———. 2021. "On the Renaissance of Socialism." *Procesos de mercado: Revista europea de economía política* 18 (2): 13–37.

Hume, David. [1777] 1987. "Of the Original Contract." In *Essays— Moral, Political, and Literary.* Indianapolis, IN: Liberty Fund.

Hutt, William H. [1930] 1954. *The Theory of Collective Bargaining.* Glencoe, IL: Free Press.

———. [1939] 2011. *The Theory of Idle Resources.* Auburn, AL: Mises Institute.

Ibbetson, D. J. 2001 "Natural Law and Common Law." *Edinburgh Law Review* 5 (1): 4–20.

Israel, Karl-Friedrich. 2017. "In the Long Run We Are All Unemployed?" *Quarterly Journal of Economics and Finance* 64: 67–81.

———. 2018. "The Income Effect Reconsidered." *Quarterly Journal of Austrian Economics* 21 (4): 375–97.

———. 2020. "Income and Substitution Effects: A Rejoinder to Professor Salerno." *Quarterly Journal of Austrian Economics* 23 (2): 192–211.

———. 2021. "The Expenditure Approach to Income and Substitution Effects." *Economics Bulletin*. Forthcoming.

Jauvert, Vincent. 2021. *La Mafia d'état.* Paris: Seuil.

Jevons, William Stanley. 1871. *Theory of Political Economy.* London: Macmillan.

———. 1883. *Methods of Social Reform.* London: Macmillan.

Jhering, Rudolph von. 1893. *Der Zweck im Recht.* 3rd ed. Leipzig: Breitkopf and Härtel. Vol. 1.

Jouvenel, Bertrand de. [1952] 1990. *The Ethics of Redistribution.* Indianapolis, IN: Liberty Fund.

Kant, Immanuel. [1778] 1991. *Kritik der praktischen Vernunft*. Vol. 7. *Werkausgabe.* 11th ed. Frankfurt: Suhrkamp.

Kealey, Terence. 1996. *The Economic Laws of Scientific Research.* London: Palgrave Macmillan.

Keenan, Dennis King. 2005. *The Question of Sacrifice.* Bloomington: Indiana University Press.

Keller, Franz. 1912. *Unternehmung und Mehrwert.* Cologne: Kommissions-Verlag.

Keown, John. [2002] 2018. *Euthanasia, Ethics and Public Policy.* 2d ed. Cambridge, UK: Cambridge University Press.

Kelsen, Hans. [1960] 1967. *The Pure Theory of Law*. 2d ed. Berkeley: University of California Press.

Keynes, John Maynard. 1926. *The End of Laissez-Faire.* London: Hogarth Press.

Kim, Iljoong, Hojun Lee, and Llya Somin, eds. 2017. *Eminent Domain: A Comparative Perspective* Cambridge, UK: Cambridge University Press.

Kinsella, N. Stephan. 2023. *Legal Foundations of a Free Society.* Houston: Papinian Press.

Knepper, Lisa, Jennifer McDonald, Kathy Sanchez, and Elyse Smith Pohl. 2020. *Policing for Profit: The Abuse of Civil Asset Forfeiture.* 3rd ed. Arlington, VA: Institute for Justice.

Knies, Carl. 1879. *Geld und Credit*, part 2: *Der Credit*, second half. Berlin: Weidmannsche Buchhandlung.

Knight, Frank H. [1921] 1985. *Risk, Uncertainty, and Profit.* Chicago: University of Chicago Press.

Köpping, Klaus-Peter. [1977] 2002. *Traité d'anthropologie historique.* Paris: L'Harmattan.

Kolm, Serge-Christophe, and Jean Mercier Ythier. 2006. *Handbook of the*

Economics of Giving, Altruism and Reciprocity. New York: North Holland. Vol. 1.

Kropotkin, Peter. *Gegenseitige Hilfe.* [1902] 1908. Leipzig: Theodor Thomas.

La Boétie, Étienne de. [1576] 1993. *De la servitude volontaire ou Contre'un.* Paris: Gallimard.

Laffont, Jean-Jacques. 1977. *Effets externes et théorie économique.* Paris: CNRS, monographie no. 13 du séminaire d'économétrie.

———. 2018. "Externalities." *The New Palgrave Dictionary of Economics.* 2d ed. London: Palgrave Macmillan.

Lalani, Shamin. 1997. "Looking a Gift Horse in the Mouth." *The Philanthropist Journal* 14 (1).

Landry Craig, Andreas Lange, John A. List, Michael K. Price, and Nicholas G. Rupp. 2006. "Toward an Understanding of the Economics of Charity: Evidence from a Field Experiment." *Quarterly Journal of Economics* 121 (2): 747–82.

Lasch, Christopher. 1996. *The Revolt of the Elites and the Betrayal of Democracy.* New York: W. W. Norton.

Laum, Bernhard. 1924. *Heiliges Geld.* Tübingen: Mohr.

———. 1960. *Schenkende Wirtschaft.* Frankfurt a.M.: Klostermann.

Le cercle de l'épargne. 2022. *Les Français, l'épargne et la retraite.* Paris: Le cercle de l'épargne.

Lefebvre, Mathieu, and Pierre Pestiau. 2017. *L'État-Providence— défense et illustration.* Paris: Presses Universitaires de France.

Lemennicier, Betrand. 1997. "Propriété intellectuelle et protection des idées: la bataille du XIXe siècle." In Alain Madelin, *Aux sources du modèle liberal français.* Paris: Perrin.

Leoni, Bruno. [1961] 1991. *Freedom and the Law*. 3rd ed. Indianapolis, IN: Liberty Fund.

Leontjeva, Elena, Aneta Vainė, and Marija Vyšniauskaitė, eds. 2016. *The Phenomenon of Scarcity: Being, Man, and Society.* Vilnius: Lietuvos laisvosios rinkos institutas.

Lévy-Strauss, Claude. [1949] 1969. *The Elementary Structures of Kinship.* Boston: Beacon Press.

Lewis, C. S. 1943. *Mere Christianity.* New York: Macmillan.

———. 1945. *The Great Divorce.* New York: Harcourt, Brace.

———. 1960. *The Four Loves.* New York: Harcourt, Brace.

Łobaczewski, Andrzej. [1984] 2006. *Political Ponerology: A Science on the Nature of Evil Adjusted for Political Purposes.* Grande Prairie: Red Pill Press.

Locke, John. [1689] 1993. *Two Treatises of Government.* London: Dent.

Mac Donald, Heather. 1996. "The Billions of Dollars That Made Things Worse." *City Journal* (Autumn).

Machaj, Mateusz. 2021. *A Market Process Theory of the Firm.* London: Routledge.

Machlup, Fritz, and Edith Penrose. 1950. "The Patent Controversy in the Nineteenth Century." *Journal of Economic History* 10 (1): 1–29.

Machovec, Frank. 1995. *Perfect Competition and the Transformation of Economics.* London: Routledge.

Maclean, Mairi, Charles Harvey, Roumei Yang, and Frank Mueller. 2021. "Elite Philanthropy in the United States and United Kingdom in the New Age of Inequalities." *International Journal of Management Reviews* 23 (3): 330–52.

Maistre, Joseph de. [1810] 2010. *Éclaircissement sur les sacrifices.* Paris: Éditions de l'Herne.

Malinowski, Bronisław. 1922. *Argonauts of the Western Pacific: An Account of Native Enterprise and Adventure in the Archipelagoes of Melanesian New Guinea.* New York: Dutton.

Marion, Jean-Luc. [1997] 2002. *Being Given: Toward a Phenomenology of Givenness.* Stanford, CA: Stanford University Press.

———. 2011. *The Reason of the Gift.* Charlottesville: University of Virginia Press.

Marshall, Alfred. [1890] 1920. *Principles of Economics.* London: Macmillan.

Martin, Xavier. 2003. *Mythologie du Code Napoléon—Aux soubassement de la France moderne*. Poitiers: Dominique Martin Morin.

———. 2008. *Régénérer l'espèce humaine: Utopie médical et Lumières (1750–1850)*. Poitiers: Dominique Martin Morin.

———. 2013. *S'approprier l'homme: Un thème obsessionnel de la Révolution (1760–1800)*. Poitiers: Dominique Martin Morin.

Marx, Karl. [1857] 1973.*Grundrisse.* Harmondsworth, UK: Penguin.

———. 1867. *Das Kapital.* Hamburg: Meissner.

Massin, Olivier. 2017. "The Metaphysics of Ownership: A Reinachian Account." *Axiomathes* 27 no. 5 (2017): 577–600.

Mattison, William C. 2012. "Movements of Love: A Thomistic Perspective on *Agape* and *Eros*." *Journal of Moral Theology* 1 (2): 31–60.

Mauss, Marcel. [1925] 2002. *The Gift.* London: Routledge.

———. [1925] 2010. *Essai sur le don.* Paris: Presses Universitaires de France.

Mazzotta, Fernanda, and Lavinia Parisi. 2020. "Money and time: what would you give back to me? Reciprocity between children and their elderly parents in Europe" *Economia Politica* 37: 941– 69.

McCaffrey, Matthew. 2015. "What's Love Got to Do with It? Action, Exchange, and Gifts in Economic Theory." *Quarterly Journal of Austrian Economics* 18 (2): 210–11.

McCann, Duncan. 2015. "The Sharing Economy: The Good, the Bad and the Real." New Economics Foundation (December 10).

McCully, George. 2012. Review of *Philanthropy in America: A History*, by Olivier Zunz. *Conversations on Philanthropy* 9.

McGoey, Linsey. 2015. *No Such Thing as a Free Gift.* London: Verso.

McKinnon, Ronald I. 1973. *Money and Capital in Economic Development.* Washington, DC: Brookings Institution.

McQuillan, Lawrence J., and Hayeon Carol Park. 2017. "Pope Francis, Capitalism, and Private Charitable Giving." *Independent Review* 21 (3): 419–41.

McWilliams, Paul. 2010. "English Common Law: Embodiment of the Natural Law." *Western Australian Jurist* 1: 128–31.

Menger, Carl. [1871] 1976. *Principles of Economics.* New York: New York University Press.

———. [1883] 1985. *Investigations into the Method of the Social Sciences with Special Reference to Economics.* New York: New York University

Press.

———. 1888. "Zur Theorie des Kapitals." *Jahrbücher für National-ökonomie und Statistik* 17.

Merrien, François-Xavier. [1997] 2007. *L'État-Providence.* 3rd ed. Paris: Presses Universitaires de France.

Mill, John Stuart. 1859. *On Liberty*. London: Parker and Son.

Mises, Ludwig von. [1929] 2011. *A Critique of Interventionism.* Auburn, AL: Mises Institute.

———. 1956. *Anti-Capitalistic Mentality.* Princeton, NJ: Van Nostrand.

———. 1944a. *Bureaucracy.* New Haven, CT: Yale University Press.

———. 1944b. *Omnipotent Government*. New Haven, CT: Yale University Press.

———. [1933] 2003. *Epistemological Problems of Economics.* Auburn, AL: Mises Institute.

———. [1949] 1998. *Human Action: A Treatise on Economics.* Auburn, AL: Mises Institute.

———. [1922] 1981. *Socialism: An Economic and Sociological Analysis.* Indianapolis, IN: Liberty Fund.

———. 1962. *The Ultimate Foundation of Economic Science.* Irvington-on-Hudson, NY: Foundation for Economic Education.

———. 1957. *Theory and History: An Interpretation of Social and Economic Evolution.* New Haven, CT: Yale University Press.

———. [1912] 1981. *Theory of Money and Credit.* Indianapolis, IN: Liberty Fund.

Mitchell, Mark T. 2022. *Plutocratic Socialism*. Eugene, OR: Front Porch Republic Books.

Mlčoch, Lubomir. 2017. *Economics of the Family.* Amersfoort: Sallux.

Molina, Luis de. [1597] 1981. *Teoria del Justo Precio.* Madrid: Edicion Nacional.

Morelle, Aquilino. 1996. *La défaite de la santé publique.* Paris: Flammarion.

Morgan, Lewis Henry. 1877. *Ancient Society.* London: Macmillan.

Mudrazija, Stipica. 2014. "The Balance of Intergenerational Family

Transfers: A Life-cycle Perspective." *European Journal of Ageing* 11: 249–59.

———. 2016."Public Transfers and the Balance of Intergenerational Family Support in Europe." *European Societies* 18 (4): 336–58.

Mueller, John D. 2010. *Redeeming Economics: Rediscovering the Missing Element.* Wilmington, DE: Intercollegiate Studies Institute,.

———. 2015 "The 'Missing Element' in Modern Economics." *Quarterly Journal of Austrian Economics* 18 (2): 140–72.

Murray, Charles. 1984. *Losing Ground: American Social Policy, 1950– 1980.* New York: Basic Books.

———. 2012. *Coming Apart: The State of White America, 1960–2010.* New York: Random House.

Nanos, Janelle. 2013. "The End of Ownership: America's New Sharing Economy." *Boston Magazine* (May).

Naudet, Jean-Yves. 2020. *Doctrine sociale de l'Eglise.* Presses Universitaires d'Aix-Marseille. Vol. 4.

Nielsen, Waldemar A. [1985] 2017. *Golden Donors: A New Anatomy of the Great Foundations.* London: Routledge.

———. 1996. *Inside American Philanthropy: The Drama of Donorship.* Oklahoma: University of Oklahoma Press.

Nold, Patrick. 2003. *Pope John XXII and his Franciscan Cardinal: Bertrand de la Tour and the Apostolic Poverty Controversy.* Oxford: Oxford University Press.

North, Gary. 1992. *The Coase Theorem: A Study in Economic Epistemology.* Tyler, TX: Institute of Christian Economics.

Nozick, Robert. 1998. "Why Do Intellectuals Oppose Capitalism?" *Cato Policy Report* 20 (1).

Oakley, Barbara, Ariel Knafo, Guruprasad Madhavan, and David Sloan Wilson. 2012. *Pathological Altruism.* Oxford: Oxford University Press.

Olivi, Pierre Jean. [1295] 2021. *Traktat über Verträge.* Hamburg: Meiner.

Oppenheimer, Franz. [1907] 1990. *Der Staat.* Berlin: Libertad-Verlag.

Oresme, Nicolas. 1956. "Treatise on the Origin, Nature, Law, and Alterations of Money." In *The De Moneta of Nicholas Oresme and*

English Mint Documents. Charles Johnson, ed. London: Thomas Nelson and Sons.

Osberg, Lars. 2008. "Leisure." In *The New Palgrave Dictionary of Economics.* 2d ed. London: Palgrave Macmillan.

Ostrom, Elinor. 1990. *Governing the Commons: The Evolution of Institutions for Collective Action.* Cambridge: Cambridge University Press.

———. 2010. "Beyond Markets and States: Polycentric Governance of Complex Economic Systems." *American Economic Review* 100 (3): 641–72.

O'Sullivan, Richard. 1950. "Natural Law and the Common Law." *Notre Dame Natural Law Institute Proceedings* 3: 9–44.

Padioleau, Jean G. 1982. *L'État au concret.* Paris: Presses Universitaires de France.

Palyi, Melchior. 1962. *An Inflation Primer.* Chicago: Regnery.

Papandreou, Andreas. 1994. *Externality and Institutions.* New York: Oxford University Press.

Patinkin, Don. 1956. *Money, Interest, and Prices*. Evanston, IL: Row Peterson.

Payne, A. Abigail. 1998. "Does the Government Crowd-out Private Donations? New Evidence from a Sample of Non-profit Firms." *Journal of Public Economics* 69: 323–45.

Pernoud, Régine. 2014. *Pour en finir avec le Moyen Âge.* Paris: Points.

Perroux, François. 1960. Économie et Société. Contrainte—Échange—*Don.* Paris: Presses Universitaires de France.

———. 1963. *L'économie du XXe siècle.* Paris: Presses Universitaires de France.

———. 1981. *Pour une philosophie du nouveau développement.* Paris: Aubier-Montaigne.

Pesch, Heinrich. 1923. *Lehrbuch der Nationalokonomie*. Freiburg: Herder. Vol. 5.

Pieper, Josef. [1931] 2004. "Thomas von Aquin und das Eigentumsrecht." *Frühe soziologische Schriften.* Hamburg: Meiner.

———. [1948] 1995. *Muße und Kult.* 9th ed. München: Kösel.

———. [1948] 1998. *Leisure, the Basis of Culture.* South Bend, IN: St. Augustine's Press.

———. [1972] 1992. *Über die Liebe.* 7th ed. München: Kösel.

Piff, Paul K., Daniel M. Stancato, Stéphane Côté, and Dacher Keltner. 2012. "Higher Social Class Predicts Increased Unethical Behaviour." *Proceedings of the National Academy of Sciences* 109 (11).

Pigou, Arthur Cecil. [1920] 1932. *The Economics of Welfare.* London: Macmillan.

Plato. 1990. *Werke*. Darmstadt: Wissenschaftliche Buchgesellschaft.

Plotinus. 1962. *The Enneads*. London: Faber and Faber.

Polanyi, Karl. 1944. *The Great Transformation: The Political and Economic Origins of Our Time*. New York: Farrar and Rinehart.

Polleit, Thorsten. 2011. "Fiat Money and Collective Corruption." *Quarterly Journal of Austrian Economics* 14 (4): 397–415.

Premerstein, Anton von. 1937. "Vom Werden und Wesen des Prinzipats." *Abhandlungen der Bayerischen Akademie der Wissenschaften, Phil.-hist. Abt.*, new series 15.

Prouteau, Lionel and François-Charles Wolff. 2008. "On the Relational Motive for Volunteer Work." *Journal of Economic Psychology* 29 (3): 314–35.

Puviani, Amilcare. [1903] 1960. *Die Illusionen in der öffentlichen Finanzwirtschaft.* Berlin: Hans Winter.

Rand, Ayn. 1964. *The Virtue of Selfishness.* New York: Penguin.

Ravier, Adrian O. 2013. "Dynamic Monetary Theory and the Phillips Curve with a Positive Slope." *Quarterly Journal of Austrian Economics* 16 (2): 165–86.

Reinach, Adolf. [1911] 1982. "On the Theory of Negative Judgement." In Barry Smith, ed. *Parts and Moments: Studies in Logic and Formal Ontology.* Munich: Philosophia.

———. [1913] 1983. "The Apriori Foundations of the Civil Law." *Aletheia* 3: 1–142.

Reisman, George. 1996. *Capitalism.* Laguna Hills, CA: TJS Books.

Rhonheimer, Martin. 2001. *Die Perspektive der Moral.* Berlin: Akademie

Verlag.

———. 2014. *Christentum und säkulärer Staat.* Freiburg i.Br.: Herder.

———. 2015. "Die Wirtschaftsform des Gebens." *Schweizer Monat* 1032.

———. 2018. "Brüche in der katholischen Soziallehre: Vom Primat der Freiheit zur staatlichen Zwangssolidarität." In Stephan Wirz, ed. *Kapitalismus—ein Feindbild für die Kirchen?* (Baden-Baden: Nomos.

———. 2021. "Warum Eigentum sozial ist: Das Recht auf Privateigentum ist kein 'zweitrangiges' Naturrecht." *Herder Korrespondenz* 7.

Ricardo, David. [1817] 2004. *Principles of Political Economy and Taxation.* Indianapolis, IN: Liberty Fund.

Rickenbacker, William, ed. [1974] 2014. *The Twelve-Year Sentence.* San Francisco: Fox and Wilkes.

Riley, James C. 1997. *Sick Not Dead: The Health of British Workingmen during the Mortality Decline.* London: Johns Hopkins Press.

Röpke, Wilhelm. [1937] 1963. *Economics of the Free Society.* Chicago: Regnery.

———. 1987. *Two Essays by Wilhelm Roepke.* Lanham, MD: University Press of America.

Romer, Paul. 1986. "Increasing Returns in Long Term Growth." *Journal of Political Economy* 94: 1002–37.

———. 1990. "Endogenous Technical Change." *Journal of Political Economy* 5 (9): 71–102.

Rothbard, Murray N. [1965] 1974. "The Anatomy of the State." *Egalitarianism as a Revolt against Nature and Other Essays.* Washington, DC: Libertarian Press Review.

———. [1970] 1977. *Power and Market: Government and the Economy.* 2d ed. Kansas City, MO: Sheed, Andrews and McMeel.

———. 1982. "Law, Property Rights, and Air Pollution." *Cato Journal* 2 (1): 55–99.

———. [1962] 1993. *Man, Economy, and State: A Treatise on Economic Principles.* 3rd ed. Auburn, AL: Mises Institute.

———. [1973] 1994. *For a New Liberty.* 2d ed. San Francisco: Fox and Wilkes.

———. [1982] 1998. *The Ethics of Liberty.* 2d ed. New York: New York University Press.

———. 1995. *An Austrian Perspective on the History of Economic Thought.* Auburn, AL: Mises Institute.

———. [1956] 1997. "Toward a Reconstruction of Welfare and Utility Economics." In *The Logic of Action: Method, Money, and the Austrian School.* Cheltenham, UK: Edward Elgar. Vol. 1.

Rousseau. Jean-Jacques. [1762] 1948. *The Social Contract.* London: Allen and Unwin.

Ruys, Philip. 2017. "A Development of the Theory of the Ricardo Effect." *Quarterly Journal of Austrian Economics* 20 (4): 297–335.

Sagot-Duvauroux, Dominique, ed. 2002. *La propriété intellectuelle c'est le vol !* Dijon: Les presses du réel.

Sahlins, Marshall D. [1874] 2017. *Stone Age Economics.* London: Routledge.

Salerno, Joseph T. 2002. "Friedrich von Wieser and F. A. Hayek: The General Equilibrium Tradition in Austrian Economics." *Journal des Economistes et des Etudes Humaines* 12 (2/3).

———. 2018. "The 'Income Effect' in Causal-Realist Price Theory." In Matthew McCaffrey, ed. *The Economic Theory of Costs: Foundations and New Directions.* Abingdon, UK: Routledge.

———. 2019. "The Wealth Effect and the Law of Demand: A Comment on Karl-Friedrich Israel." *Quarterly Journal of Austrian Economics* 22 (4): 579–95.

———. 2019. "Economics: Vocation or Profession?" *Mises Wire* (July 16).

Salerno, Joseph T., Carmen Elena Dorobăţ, and Matthew McCaffrey. 2021. "Monopoly as a 'Culture-History Fact': Knight, Menger, and the Role of Institutions." Special Issue on the Centenary of Frank H. Knight's *Risk, Uncertainty, and Profit*. *Journal of Institutional Economics* 17 (6): 1049–64.

Sales, Francis de. [1609] 1891. *Introduction to the Devout Life.* London: Longman's, Green.

Salin, Pascal. [1985] 2020. *Tax Tyranny.* Cheltenham, UK: Edward Elgar.

———. 1995. *La concurrence.* Paris: Presses Universitaires de France.

———. 1990. *La vérité sur la monnaie.* Paris: Odile Jacob.

———. 1996. "The Myth of the Income Effect." *Review of Austrian Economics* 9 (1): 95–106.

Samaras, Thanassis. 2017. "Leisure in Classical Greek Philosophy." In Karl Spracklen, Brett Lashua, Erin Sharpe, and Spencer Swain, eds. *The Palgrave Handbook of Leisure Theory.* London: Palgrave Macmillan.

Sammeroff, Antony. 2019. *Universal Basic Income—For and Against.* Rational Rise Press.

Samuelson, Paul A. 1954. "The Pure Theory of Public Expenditure." *Review of Economics and Statistics* 36 (4): 387–89.

———. 1955. "Diagrammatic Exposition of a Theory of Public Expenditure." *Review of Economics and Statistics* 37 (4): 350–56.

———. 1958. "Aspects of Public Expenditure Theories." *Review of Economics and Statistics* 40 (4): 332–38.

Sandall, Roger. 2001. *The Culture Cult.* Boulder, CO: Westview.

Say, Jean-Baptiste. [1803] 1861. *Traité d'économie politique.* 7th ed. Paris: Guillaumin.

Scalise, Ronald J. 2016. "Classifying and Clarifying Contracts." *Louisiana Law Review* 76 (4).

Schelsky, Helmut. 1975. *Die Arbeit tun die anderen: Klassenkampf und Priesterherrschaft der Intellektuellen*. 2d ed. Opladen: Westdeutscher Verlag.

Schoeck, Helmut. 1970. *Envy: A Theory of Social Behavior*. New York: Harcourt Brace and World.

Schönfelder, Bruno. 2012. *Vom Spätsozialismus zur Privatrechtsordnung.* Berlin: Berliner Wissenschafts-Verlag.

Schopenhauer, Arthur. [1840] 2010. *The Two Fundamental Problems of Ethics.* Oxford: Oxford University Press.

———. [1851] 1905–10. *Parerga und Paralipomena*, 2nd part. *Sämmtliche Werke in Fünf Bänden*. Leipzig: Inselverlag. Vol. 5.

Schumpeter, Josef A. 1928. "The Instability of Capitalism." *Economic Journal* 38 (September): 361–86.

———. [1942] 2003. *Capitalism, Socialism, and Democracy.* London:

George Allen and Unwin.

Schweinitz, Karl de. 1943. *England's Road to Social Security.* London: Oxford University Press.

Sennholz, Hans. 1987. *The Politics of Unemployment.* Spring Mills, PA: Libertarian Press.

Seipel, Ignaz. 1907. *Die wirtschaftsethischen Lehren der Kirchenväter.* Vienna: Mayer.

Seldon, Arthur, ed. 1996. *Re-Privatising Welfare: After the Lost Century.* London: Institute for Economic Affairs.

Shaw, Edward S. 1973. *Financial Deepening in Economic Development.* Oxford: Oxford University Press.

Shearmur, Jeremy. 2001. "Trust, Titmuss and Blood." *Economic Affairs* 21: 29–33.

Sidgwick, Henry. 1883. *The Principles of Political Economy.* London: Macmillan.

Simonet, Maude. 2018. *Travail gratuit: la nouvelle exploitation?* Paris: Textuel.

Sintomer, Yves. 2016. *Das demokratische Experiment: Geschichte des Losverfahrens in der Politik von Athen bis heute.* Wiesbaden: Springer.

Slee, Tom. 2015. *What's Yours Is Mine: Against the Sharing Economy.* London: OR Books.

Smiles, Samuel. [1859] 1908. *Self-Help.* London: John Murray.

Smith, Adam. [1776] 1994. *The Wealth of Nations.* New York: Random House.

———. [1763] 1896. *Lectures on Justice, Police, Revenue and Arms.* Oxford: Clarendon.

———. [1759] 1853. *Theory of Moral Sentiments.* London: Henry G. Bohn.

Sombart, Werner. 1913. *Der Bourgeois.* Munich: Duncker and Humblot.

Spencer, Herbert. [1851] 1995. *Social Statics.* New York: Schalkenbach Foundation.

———. [1879] 1978. *The Principles of Ethics.* Indianapolis, IN: Liberty Fund.

———. 1898. *The Principles of Sociology.* New York: Appleton.

Spooner, Lysander. [1867] 1870. *No Treason: The Constitution of No Authority.* Boston: self-published.

Sraffa, Piero. 1960. *Production of Commodities by Means of Commodities.* Cambridge, UK: Cambridge University Press.

Stark, Rodney. 1997. *The Rise of Christianity: How the Obscure, Marginal Jesus Movement Became the Dominant Religious Force in the Western World in a Few Centuries.* San Francisco: Harper.

———. 2015. *How the West Won: The Neglected Story of the Triumph of Modernity.* Washington, DC: Intercollegiate Studies Institute.

Steiner, George. 1989. *Real Presences.* London: Faber and Faber.

Stellar, Jennifer E., Vida M. Manzo, Michael W. Kraus, and Dacher Keltner. 2012. "Class and compassion: Socioeconomic Factors Predict Responses to Suffering." *Emotion* 12 (3).

Sternberg, Elaine. 1994. *Just Business.* London: Little, Brown.

Sternberg, Robert J., ed. 2002. *Why Smart People Can Be So Stupid.* New Haven, CT: Yale University Press.

Stigler, George. 1961. "The Economics of Information." *Journal of Political Economy* 64: 213–25.

Stiglitz, Joseph E. 1972. "On the Optimality of the Stock Market Allocation of Investment." *Quarterly Journal of Economics* 86 (1): 25–60.

Strigl, Richard von. [1934] 2000. *Capital and Production.* Auburn, AL: Mises Institute.

Sumner, William Graham. 1913. *Earth Hunger and Other Essays.* New Haven, CT: Yale University Press.

Szpindor Watson, Michael V. 2015. "Mueller and Mises: Integrating the Gift and 'Final Distribution' within Praxeology." *Quarterly Journal of Austrian Economics* 18 (2): 173–202.

Tarde, Gabriel. 1895. *Les lois de l'imitation.* 2d ed. Paris: Alcan.

Taylor, Charles. 2007. *A Secular Age.* Boston: Harvard University Press.

Thierry, Augustin. [1825] 1856. *History of the Conquest of England by the Normans.* London: Bohn.

Titmuss, Richard. 1970. *The Gift Relationship: From Human Blood to Social Policy.* London: Allen and Unwin.

Tocqueville, Alexis de. [1835] 2010. *Democracy in America*. Indianapolis, IN: Liberty Fund. Vol. 3.

Tooley, James. 1996. *Education Without the State.* London: Institute of Economic Affairs.

Tucker, Gideon. 1870. *Reports of Cases Argued and Determined in the Surrogate's Court of the County of New York*. New York: Banks & Brothers.

Tullock, Gordon. 1971. "The Charity of the Uncharitable." *Western Economic Journal* 9 (4): 379–92.

Uhlaner, Carole Jean. 1989. "'Relational Goods' and Participation: Incorporating Sociability into a Theory of Rational Action." *Public Choice* 62: 253–85.

Vaubel, Roland. 1986. "A Public Choice Approach to International Organisation." *Public Choice* 51 (1): 39–57.

Veal, A. J. "Economics of Leisure." 2006. In Chris Rojek, Susan M. Shaw, and A. J. Veal, eds. *A Handbook of Leisure Studies.* London: Palgrave Macmillan.

Veblen, Thorstein. [1899] 1934. *The Theory of the Leisure Class.* New York: Random House.

Veyne, Paul. [1976] 1990. *Le pain et le cirque.* Paris: Editions du Seuil.

Viner, Jacob. 1931. "Cost Curves and Supply Curves." *Zeitschrift für Nationalökonomie* 3 (1): 23–46.

Voegelin, Eric. [1938] 1939. *Die politischen Religionen.* Stockholm: Bermann-Fischer.

———. [1952] 1959. *Die neue Wissenschaft der Politik.* Munich: Anton Pustet.

———. 1999. *Der Gottesmord*. Peter J. Opitz, ed. Munich: Wilhelm Fink.

———. 2000. *Collected Works.* Vol. 5, *Modernity without Restraint.* Columbia: University of Missouri Press.

Walras, Léon. 1860. *L'Économie politique et la justice.* Paris: Guillaumin.

———. [1874] 1985 *Éléments d'économie politique.* 5th ed. Paris:

Economica.

Weber, Max. 1919. *Politik als Beruf.* Munich: Duncker and Humblot.

———. [1922] 1947. *Wirtschaft und Gesellschaft.* 3rd ed. Tübingen: Mohr.

Weiss, Yoram. 2009. "Work and Leisure: A History of Ideas." *Journal of Labor Economics* 27 (1): 1–20.

West, E. G. [1965] 1994. *Education and the State.* 3rd ed. Indianapolis, IN: Liberty Fund.

Wicksteed, Philip. [1910] 1933. *Common Sense of Political Economy.* London: Macmillan.

Wojtyla, Karol. [1960] 1981. *Love and Responsibility.* New York: Farrar, Straus, Giroux.

Wolfelsperger, Alain. 2010. "Le désintéressement malveillant ou le chapitre manquant du *Traité critique de l'homme économique* de Jon Elster" *Revue française de science politique* 60 (4).

Woods, Tom. [2005] 2015. *The Church and the Market.* Lanham, MD: Lexington Books.

Wright, Karen. 2001. "Generosity vs. Altruism: Philanthropy and Charity in the United States and United Kingdom." *Voluntas: International Journal of Voluntary and Nonprofit Organizations* 12 (4): 399–416.

Wu, John C. H. 1954. "The Natural Law and Our Common Law." *Fordham Law Review* 23 (1): 13–48.

Zamagni, Stefano. 2005. "Gratuita e agire economico: il senso del volontariato." Faculta di Economia di Forli working paper no. 9 (March).

———. 2010. "Catholic Social Thought, Civil Economy, and the Spirit of Capitalism." In Daniel Finn. *The True Wealth of Nations.* Oxford: Oxford University Press.

Zitelmann, Rainer. 2020. "Why Intellectuals Don't Like Capitalism." *Austrian Institute Blog*, Austrian Institute for Economics and Social Philosophy, July 7. https://austrian-institute.org/en/blog/why-intellectuals-dont-like-capitalism/.

Zuiderhoek, Arjan. 2009. *The Politics of Munificence in the Roman Empire.* New York: Cambridge University Press.

Zunz, Olivier. 2014. *Philanthropy in America: A History.* 2d ed. Princeton,

NJ: Princeton University Press.

INDEX

Compiled by Roger E. Bissell

abundance. *See under* non-economic goods
Acemoglu, Daron, 49
Acton, H. B. (Harry), 131
acts of production. *See under* claims and obligations
Akerlof, George A., 91n23
Alexander the Great, 281n14
altruism, altruistic, 17, 20, 81, 103, 103n5, 104, 106–8. *See also under*
  donations, motivations of benevolent altruism, 104–9, 118
  malevolent altruism, 104–6, 108n7
Al-Ubaydli, Omar, 192n10
Andreoni, James, 65n1, 74n12, 352n11
Appéré, Gildas, 181n3
Aquinas, St. Thomas, 20, 25, 31n1, 40n5, 42, 46, 46n11, 79, 98, 100n2, 160n13, 230–31
Ardrey, Robert, 49n16
Aristotle, 25, 66n2, 97, 112, 112n9, 198, 200, 220–21, 223–27, 229, 231, 238, 327, 330n22, 393, 395–97
Aristotle's long shadow. *See also* equivalence postulate
  Aquinas and Scholastics, 230–32
  Austrian School, 236–37
  Classical and Marxist economics, 232–34
  concept of "justice itself " rules out gratuitous element in just market exchange, 230
  Neoclassical economics, 234–36
  prevented proper understanding of gratuitous good in market economy, 237
Arrow, Kenneth J., 208
  Arrow-Debreu (theory of general) equilibrium, 207–8, 208n20, 242
Atatürk, Kemal, 194
Augustine, Saint, 25, 160n13, 200, 280–81, 281n14
Austria, 64
Austrian School of economics, 4, 13–14, 21, 25–26, 26n22, 154n6, 236–37, 237nn17–18, 280, 338

Austrian approach to rent, 237n18
Austrian business cycle theory, 26n22, 26n24, 338
"autistic exchange." *See* Fallacy of
Autistic Exchange
Ayittey, George, 326n18

Baader, Roland, 352
Bagus, Philipp, 155n6
Balzac, Honoré de, 331n24
Bardhi, Fleura, 170
Barry, Norman, 132n10
Bartholomew, James, 21, 303–5, 307, 310, 320, 353
Barzun, Jacques, 3
Bassani, Luigi Marco, 266n2
Bassi, Daniela, 173
Bastiat, Frédéric, 10–11, 16, 21–22, 27n24, 205–7, 213, 213n24, 214–15, 219, 254, 263, 284, 303, 315–16, 320, 393, 395
Carey-Bastiat Effect, 211
Proudhon-Bastiat debate, 317
Batthyany, Philipp, 223n4
Bauer, Peter T., 326n18
"Baumol's disease," 345n6
Becker, Gary S., 25, 54n23, 69n4
Belloc, Hilaire, 2, 396–97
Benda, Julien, 70, 70n7, 349–50
Benedict XVI, Pope, xv, 125n2, 198, 219, 231, 393
beneficial side effects. *See under* human action
beneficiary, 31–32, 35–37, 46, 56–57, 69, 71–72, 75–76, 76n15, 77–78, 81, 83, 89–90, 93, 98, 103, 106, 108–9, 111, 119–21, 125, 131n9, 143, 146, 173, 183, 190, 195, 210, 213, 238, 240, 240n19, 241, 252, 255–56, 268–69, 271, 282–83, 288, 293, 299, 301, 304, 306, 308, 312, 318–19, 322–26, 326n18, 334, 336–37, 339, 350, 353, 357–58, 365, 376, 381–83, 395. *See also* donor
benefit, xi, 7–8, 15, 20, 24, 28, 37, 45, 49, 52–53, 69, 71n8, 72, 75, 77–78, 80–81, 90, 99, 102, 106, 112, 119–22, 128, 130, 132, 160, 162–63, 165, 167–68, 170, 174, 176–77, 180–81, 184, 186–91, 195–97, 199, 202–3, 210–11, 213, 215, 239, 240n19, 243–45, 253, 256, 259, 263, 266, 268–69, 273, 280, 282, 285–86, 293, 296, 301–2, 304–6, 310–11, 316, 318, 320n17, 323, 326, 331, 337, 339, 341, 344–48, 350, 356, 358, 360, 366–67, 369, 373–74, 376, 381–82, 388, 391–92. *See also* goods

external benefit, 239–44, 247, 298
gratuitous benefit, 6, 11, 27, 34, 36, 39, 45, 81, 92, 169, 179, 181, 186–87, 189, 196, 199, 203–5, 207, 210–11, 213, 213n24, 215, 230, 235–36, 238, 251, 254, 256, 264, 269, 276, 284, 301, 370, 376; *see also* gratuitous goods
imaginary benefits, 258
immediate benefits, 69n6, 76, 81, 115, 186, 188–89, 211, 214, 337, 367
mediate benefits, 186
real, non-imaginary, 92, 183
ultimate benefits, 70, 76, 115, 119
unintended benefits, 27, 78, 184–85, 195, 202, 245, 365, 393
Bennett, James T. 336n4
Benson, Bruce L., 280n13
bequests, 114–15, 115n10, 156, 355. *See also* inheritance
Berggren, Henrik, 315n16
Bergson, Henri, 229–30
Berle, Adolph A., 190n8
Bernays, Edward, 278n8
Bevan, Aneurin, 305
Beveridge, William, 21, 310, 311n12
Bidadanure, Juliana U., 315
Blankertz, Stefan, 287, 295, 315, 370
Block, Walter, 237, 298
Böckenförde, Ernst-Wolfgang, 161
Boettke, Peter J., 164n17
Böhm-Bawerk, Eugen von, 26n22, 119, 234n14, 236, 287
Böhm, Volker, 145n3
Bohm, Peter, 207n19
Bois-Reymond, Emil Heinrich du, 349
Boldrin, Michele, 348n8, 373
Bolick, Clint, 38
Bonaventura, Saint, 168n21
Bostaph, Samuel, 359
Bouillon, Hardy, 132n10
Boulanger, André, 358
Boulding, Kenneth E., xii, 21–22, 78, 102, 102n3, 113, 156–57, 162–63, 180–81n2, 393
Bourdieu, Pierre, 111n8
Brague, Rémi, 194, 371
Braun, Eduard, 85n20, 339, 389

Brocker, Manfred, 40n5
Bruni, Luigi, 165n20, 222n2
Brunner, Otto, 266n2
Buffet, Warren, 359
Burckhard, Hugo, 70n8
Burke, Edmund, 56n26
Butler, Bishop Joseph, 105

Caillé, Alain, 73n11
Callataÿ, Damien de, 73n11
Campbell, John Y., 158n10, 390
Cantillon, Richard, 273
  Cantillon effects, 273
Caplan, Bryan, 370
Carey, Henry Charles, 213
  Carey-Bastiat Effect, 211
Carnegie, Andrew, 359
Cates, Diana Fritz, 97n1
Chadwick, Edwin, 304
  Chadwick Report, 304–5
Chafuen, Alejandro A., 125n2, 200
charitable organizations, philanthropic organizations, 10, 56, 106, 163–64, 167–68, 305–6, 333, 338, 352–53, 353n11, 355, 358–60, 362. *See also under* gifts: gift giving, social level of; philanthropy
Chesterton, G. K. (Gilbert Keith), 396
Churchill, Winston. 305
claims and obligations, rights and obligations, 14, 38, 38n4, 40–45, 82, 98, 112, 118, 122, 127, 129, 132, 134, 160–61, 199, 277, 281, 283–84, 394. *See also* human action: norms of
  acts of production, 36, 40–41, 143–44
  contract, 41, 44
  convention, statutory (legislated) law, 41, 44
  dependence relations, 42
  intelligible fact as just ground, 38
  limits established by private-property rights, 45
  logic of language and argumentation, 43
  moral claims (rights, entitlements) as including legal rights, 38n4; *see also* property rights
  moral obligations as including legal obligations, 38n4
  principle of priority (home-steading), 42

Coase, Ronald H., 229n9, 241–43, 298n6
Cogan, John F., 21, 309, 325–26
Cohen, Daniel D., 103n5 Cohen, Edward E., 396
the commons, 133, 175–76, 253–54
  common-pool resources, 47–48, 130, 172–76; *see also under* sharing, forms of: intentional
  cultural commons, 187–89, 365–68, 370
  intellectual commons, 350
  privatization of the commons, 254, 366–70
  "tragedy of the commons," 47
Comte, Auguste, 103n5
conditionality, 75–76, 83. *See also under* donations: donations, characteristics of
conflict, 1, 23, 44, 130, 134, 147-48, 175, 188–89, 254, 329, 359, 367–68
  causes of conflict, 44n9
  conflict of interest, 328, 328n19, 380
consent and gifts, 77–78. *See also under* donations: donations, characteristics of
consumer, consumerist, 7, 27, 36, 69, 80–81, 122, 143, 143n2, 149, 158, 166, 172, 175, 180–81n2, 197, 205–7, 234–35, 239, 242–43, 259, 274, 337, 361n14, 390
  consumers' goods, 36, 69, 122, 143, 143n2, 149, 158, 166, 175, 197, 274, 337, 390
  consumer surplus, 7, 197, 235
consumption, 7, 15, 19–20, 26, 26n22, 69, 69n5, 80, 84, 86, 88, 114, 124, 124n1, 143, 143n2, 144, 158, 166, 193n11, 206, 211–12, 243, 249, 259, 308, 317, 338–39
  capital consumption, 174–75, 269, 319, 389
  theory of consumption, 25, 26n22, 86
contract, 38, 41–43, 82, 122, 179, 188, 199, 207, 318, 387. *See also under* claims and obligations
  social contract, 267, 281–83, 283n16, 292, 351
convention, statutory (legislated) law, 42–43, 294. *See also under* claims and obligations
Cordato, Roy, 237
Cornuelle, Richard, 165n20, 288, 373
cost-and-benefit analysis, costs and benefits, 175, 191, 303, 344, 347–48, 391
Côté, Stéphane, 132
countervailing forces, 150–53

credit, creditors, 13, 133, 152, 155, 165n19, 180n2, 231, 275, 287, 312–13, 315–21, 330n21, 337, 339, 343, 346, 369, 378, 381, 385–86, 386n13
Creveld, Martin van, 267n4
customary gifts, 251. *See also under* donations: donations, motivations of

Dalrymple, Theodore, 21
Dao, Mai C., 158n10
Debreu, Gérard, 208n20
  Arrow-Debreu theory of general equilibrium, 207–8, 208n20, 242
Degner, Jeffery, 346n7
de la Tour, Bertrand, 168n21
De Nardi, Mariacristina, 373
dependence, 2, 42, 97, 102, 103n4, 105, 111, 259, 286, 293, 303–4, 308, 316, 326, 396. *See also under* claims and obligations
  dependency trap, 102, 304, 307
de Sade, Marquis 108n7
Derrida, Jacques, 20, 131
DiLorenzo, Thomas, 287, 336n4
distributism, distributivism, 396–97
division of labor, 1, 4–5, 7–8, 38, 49, 58, 99, 112–13, 131, 168–69, 187–89, 196, 201, 251, 312, 329, 334, 344
donations. *See also* gifts
  and market exchanges, 8, 28, 70, 117–18, 126n3, 147–48, 160, 257–58
  donations, causes and consequences of, 28, 74, 93, 139–40, 170
  donations, characteristics of, 66–90, 143, 248–52
  donations, motivations of, 18, 72, 95–115
  donations, statistical analysis of, 65
  donations, theory of, 20, 65
  donee, 71n8, 72, 75–77, 86, 89, 101–3, 109–10, 119, 124, 132, 143, 146–48, 251, 283, 306–7
  donor, 56, 66, 71, 71n8, 72, 74–81, 83–84, 88, 90, 95–96, 101–2, 109–10, 117, 120, 125, 131n9, 141, 141n1, 143, 146, 163–64, 251, 308, 326n18
  false donations, 83, 90
  genuine donation, 66, 90, 98, 118, 120–21, 123, 142–43, 248
Doncaster, David, 164n16
Dooley, Peter C., 232n11
Dorobăț, Carmen-Elena, 392
Douglas, Mary, 100n9
Dreher, Axel, 388

Dupeyroux, Jean-Jacques, 20n20, 70n8
Dun, Frank van. *See* van Dun, Frank
Durkheim, Émile, 14, 74n12, 99, 100n2, 131–32, 311n13, 379

Eabrasu, Marian, 132n10
Earle, Peter C., 295n4
earmarked personal savings, 84–85. *See also under* donations: donations, characteristics of
Ebeling, Richard, 355
Eckhardt, Giana M., 170
economic activity, 19, 22–23, 27, 53, 142–43, 219, 318, 359. *See also* consumption; donation; exchange; production
economic (monetary) calculation, 140, 156–57, 164–67, 227, 248, 344
economic evaluation, 140–41, 147, 169
economic goods, xv, 8–10, 12, 15, 20–21, 23, 34–35, 35n3, 36–37, 44, 44n9, 49n15, 55–58, 72, 83–85, 87–88, 101, 127, 140, 141, 145–46, 153, 168n21, 171–72, 174, 179, 181, 187, 191, 200, 203, 210, 219, 229, 234–35, 239, 258, 263–65, 276, 281, 284–86, 291, 294, 299, 316, 333, 394. *See also under* gratuitous goods
economic growth, 1, 5, 7, 44, 95, 148–55, 155n6, 159–60, 219, 247, 251, 253, 255, 259–60, 319, 334n2, 335, 337–38, 342, 380, 389
economic principle, 57. *See also* division of labor, gratuitousness, priority, privatization, private property, self-ownership
  of noninvasion, 228
  of spontaneous production of economic goods, 219
economics, xi–xii, 3–4, 6, 12–13, 13n14, 14–16, 16n16, 17, 25, 26n24, 27–28, 69, 71n9, 79n17, 87, 95, 119, 140, 186, 197, 199–200, 229n9, 230, 235–36, 267, 272, 325
  as theory of action, not goods, 140; *see also* human action
  Austrian School, 4, 13–14, 21, 25, 26n22, 26n24, 154n6, 236–37, 237nn17–18, 280, 338
  "bourgeois," 26, 351, 385
  classical, 236
  Marxist, 234n14
  monetary, 87
  neoclassical, 25–26, 202, 207, 234–36, 244–45, 297, 302
  of allocating time, 54n23, 69n4, 377
  of forced transfers (incl. welfare state), 21, 229, 235
  of gratuitous goods (incl. donations), 6, 10–12, 16, 20–21, 25–28, 67, 95, 139, 153, 282, 397

of markets, xii, 13
of privatization, 253
"Scholastic," 25, 26n24
Eliade, Mircea, 85
Ellul, Jacques, 349
Elster, Jon, 103n5
Engels, Wolfram, 348n8
equivalence postulate, equivalence criterion (fallacy), 13n14, 198, 219–20, 222n2, 223–24, 226, 229–31, 236–37, 393. *See also* positive external effects, theory of
Eriugena, John Scotus, 350n10
Esfeld, Michael, 295n4, 370
evil, 58–61, 106, 108n7, 216, 222, 224, 281n14, 355
gratuitous, 32, 58–61, 82, 105, 181, 210n21, 215–17, 257
vs. bad, 59
Fallacy of Autistic Exchange, 74, 74n12, 75n14, 143
false gifts. *See under* gifts
false god, 278n8
family, household, 1, 25, 35–37, 71, 64, 85–86, 96, 98–100, 107, 114, 117–19, 121–23, 131, 143, 155–57, 157n8, 158n10, 159, 164n18, 165, 165n19, 166, 168, 170, 189–90, 250, 288, 256, 272, 275, 287–88, 291, 293, 305, 309–310, 312, 314, 319, 325, 329–30, 333, 335, 339–40, 342, 344–45, 345n6, 346–48, 352–55, 357, 359–362, 369, 371, 378, 387, 395
Farchy, Joëlle, 91
Fegley, Tate, 143n2
Ferguson, Adam, 56, 56n26
Ferguson, Niall, 359
Ferry, Luc, 183
Fetter, Frank, 237n18
financial leverage, 152–53, 275, 341–43, 377–78, 382, 384, 386–87, 391
Finn, Chester E., 359
Fisher, Irving, 389
Follert, Florian, 330n22
for-profit, profit making, 24, 49, 107, 148–49, 151, 155–57, 160, 162, 164, 166–67, 169, 209, 234, 238–39, 360, 377, 393, 396. *See also* nonprofit
Foss, Nicolas J., 190n8
France, 64, 157, 349, 354, 370
Francis, Pope, 48n14, 231, 343
Francis, Saint, 168n21

Frankfurt, Harry G., 351
Frankl, Viktor E., 183–84
Frank, Thomas, 168n21
"free lunch," 36–38, 263
"free ride," 239
Frey, Bruno S., 330n22
Friedman, Milton, 4, 209, 390n15
friendship, friend, xi, 36–37, 40, 55, 71–72, 76, 79, 88–89, 97–100, 103, 112, 117–18, 121–22, 124–25, 143, 150, 170, 182, 182n6, 183, 250–51, 255, 297, 306, 378, 380–81, 395, 397, *See also* altruism; love

Gallup's World Poll, 64
Garello, Jacques, 287
Garello, Pierre, 287
Garrison, Roger, 339
Gates, Bill, 359
Gbedolo, Catherine, xii, 10, 18n18, 22, 73n11, 145n4, 180n2
genius, 13, 70, 180n2, 185–87
George, Lloyd, 305
Gerloff, Wilhelm, 112–113n9
Germany, 64–65, 157, 163–64, 349
Gertchev, Nikolay, 383
gifts, xi, 5–6, 6n7, 9n12, 10–12, 14, 16, 18–19, 19n19, 21–23, 25n21, 27, 31–32, 37, 46, 46n11, 50–52, 52n22, 53–57, 66, 69–71, 71n8, 72–73, 73n11, 74–76, 76n15, 77, 77n16, 78, 80–83, 83n19, 84, 86, 89–91, 91n23, 92–93, 98, 100–103, 103n4, 104, 109–11, 111n8, 112–14, 115n10, 117–20, 122–23, 124n1, 125, 125n2, 126, 126n3, 127–28, 130–31n8, 132–34, 139, 143, 145n4, 146–49, 156–59, 166–69, 171, 176, 179, 182n4, 183, 185–86, 193, 196, 208–9, 219, 228, 233–35, 238, 244–45, 248, 250–51, 257, 259, 266, 282, 283n16, 288, 306–8, 328, 331, 339–40, 360–61, 361n14, 362–63, 393–395, 397. *See also* donations
  false gifts, pseudo-gifts, 90, 92, 335
  genuine gifts, 73, 83, 92, 101, 117–21, 124, 132, 134–35, 183, 250, 266, 306, 308, 335, 362
  genuine gifts combined with genuine prices (hybrid), 124–25
  gift economy, xii, 101, 104n6, 113, 159, 167–69, 257, 259, 306, 339, 361, 395
  gift giving, giver, 19, 39, 46, 55–56, 74, 92, 101–2, 107, 109, 112, 131n9, 168, 174, 335

gift receiving, receiver, recipient, 39, 74, 77n16, 90, 92, 101, 109–11, 130n8, 143
gifts, rejection of, 109–15
gratuitous gifts, 213
non-gifts, 73, 83, 91n23, 92, 134
theory of, 18, 25–26, 393
Gilder, George, 81n18
Gill, Anthony, 161n15
Gillette (razor company), 91
Gimpel, Jean, 3
Girard, René, 67n3, 161n14, 193n11
God, 23, 34, 37, 42–43, 50n18, 54, 60, 67, 67n3, 69, 72, 74, 96–98, 106, 146, 160, 160n13, 161, 182n4, 259, 379, 382. *See also* false god
good, goodness, 2, 9n10, 28, 34–35, 66, 69, 97, 100n2, 103, 105, 107–8, 108n7, 110–11, 112, 112n9, 114, 123, 160, 163, 174, 184, 221, 223, 224n5, 250, 259, 308, 319, 328n19, 331, 355, 358, 378–80
good examples, 99, 193, 354, 375
"good reasons," 31, 35 39, 41, 59–60, 73, 82, 98, 240
"without good reason," 31n1, 32, 34, 59–61, 82
goods, xi, xv, 4, 6, 9–11, 23, 32–34, 34–35n3, 35, 37, 45, 47, 48n14, 50, 50n15, 51n21, 52n22, 54, 57, 72, 85, 100, 117, 121, 123, 127, 133–34, 144–45, 148–49, 160, 160n4, 162, 166, 169, 174, 181–82, 182n4, 184–87, 189, 195, 202, 225, 227n6, 240n19, 245, 252, 255–56, 258–59, 279n9, 283–85, 288, 334, 365, 370, 378, 389. *See also* consumer: consumers' goods; economic goods; gratuitous goods; noneconomic goods; non-gratuitous goods; producer: producers' goods; sacrifice: sacrificial goods; side-effects: side-effect goods
goods and services, 1, 4, 7, 9, 11, 90, 93n24, 147, 267, 302, 339, 361n14
nonrivalrous goods, 301
patented goods, 375
personal, subjective dimension, 181
privatization of goods, 47, 254, 367, 374, 395
public goods, 28, 292–93, 295–98, 298nn5–6, 299–300, 300n7, 301–2, 320n17
theory of goods, 140
Gordon, David, 77n16
Goschen, Mr. (George Joachim), 355
Gosden, Peter H. J. H., 354
Gottfried, Paul E., 330

Graeber, David, 279n9
Grant, Edward, 3
grants, 21, 71n8, 76, 79, 81, 92, 98, 102, 102n3, 162, 162n15, 163, 248, 251, 358, 362–63. *See also under* donations: donations, characteristics of
  forced grant, 83, 83n19
  imperfect grant, 80
  "implicit grant," 180–81n2
gratuitous evils, gratuitous violence, 32, 58–61, 82, 105, 181, 210n21, 215–17, 257
gratuitous goods, xi–xii, 5–13, 13n14, 16, 18, 21, 27–28, 31–32, 33n2, 34, 36–37, 40, 44–53, 55–61, 63, 65, 76, 81–82, 103, 112, 134, 140, 155, 170, 188, 199, 209, 214–15, 220, 238, 247–48, 254–55, 57–60, 264, 275, 359, 394–95. *See also* human action
  economics of, 20–22, 28, 67, 139, 199, 282, 344, 397
  impact of government interventions on, 28, 156, 263–65, 275–77, 284–85, 288, 291–92, 294–95, 321, 366, 374, 392, 395
  intentional, 50; *see also* gifts
  gratuitous economic goods, 10, 51, 53, 70, 213
  theory of, 16, 25, 27, 203, 237, 296, 352, 393
  unintentional, 51, 186, 201
gratuitousness, xv, 6n7, 23–24, 27, 32–33, 39–40, 45, 47, 50n18, 58, 97–98, 112, 135, 199, 210, 230–31, 248–49, 258, 275, 295
  abusive, 232–33
  intentional, 55
  spontaneous, 56, 56n26, 204, 180n2, 196, 210, 259
  principle of, 22–24, 27, 53,
  theory of, 257
  unintentional, 21
Green, David G., 320, 354, 354n12
Greenwald, Bruce C., 208n20
Gregory, Chris A., 14n15
Grice, Paul, 43
Grigsby, Byron L., 3
Gui, Benedetto, 71n9
Guilluy, Christophe, 311

Habermann, Gerd, 21, 133, 287, 303n8
Haidt, Jonathan, 183
Halbertal, Moshe, 67n3, 102n3, 278n8
Haller, Carl Ludwig von, 266n2

Haller, Hans, 145n3
harm, harmful, 58–59, 181, 207, 216–17, 339, 346, 395. *See also* evil
  gratuitous harm, 105, 216–17, 230, 376; *see also* gratuitous evil
Harris, Stephen, 3
Harvey, Charles (incl. in Maclean et al.), 358
Hatcher, Daniel L., 326n18
Hayek, Friedrich A., 41n6, 56, 56n26, 97, 202–3, 203n18, 352, 368n4, 381, 382n12
Hazlitt, Henry, 15, 326n18, 389n14
Hegel, G. W. F., 394, 313
Heidegger, Martin, 20
Helm, D. R., 145n3
Henry VIII (King), 304, 396
Herbener, Jeffrey M., 389n14
Hieber, Daniel W., 43
Higgs, Robert, 47n13, 287
Hobbes, Thomas, 72–73, 106, 279n9, 293, 350n10
  Hobbes Fallacy. *See also under* donations: donations, characteristics of
Hodgson, Geoffrey M., 25n21, 379
Holcombe, Randall, 287
Hoppe, Hans-Hermann, 42–43, 51n21, 132n10, 228n8, 229n9, 278n8, 280, 280n13, 287, 298n6, 300n7, 330n23, 350, 397
Horváth, Alexander, 40n5
Hubert, Henri, 67n3
Huerta de Soto, Jesús, 287, 339
Hughes, Alan, 164n16
Hughes, Mark D., 16, 324–25, 336n4, 354
Hüllmann, Karl D., 19
Hülsmann, Jörg Guido, 16n16, 40n5, 132n10, 142, 153, 154–55n6, 165n19, 169n23, 185n7, 191n9, 212n23, 213n24, 226, 227n6, 229n9, 231n10, 237n17, 242, 244, 268, 272n6, 311n14, 334–35n2, 336, 343, 350, 368n4, 378n10, 383, 389n14, 391–92
human action, xii, 6, 12–14, 16n16, 23, 25, 38–39, 45n10, 49–50, 54, 57, 68, 73–74, 74nn12–13, 101, 106, 140–41, 145–46, 158, 165, 167, 183, 185, 189, 214, 217, 227, 238, 242–43, 248, 394
  intentional vs. unintentional effects of, 56
  norms of, 38, 38n4, 39, 41, 41n6, 133, 162n15, 188–89, 300n7
  theory of, logic of, 13–14, 185
human action, beneficial but unintentional side effects of, 28, 46, 56–57, 79, 88, 162n15, 180, 199, 204–5, 207, 209, 219, 248, 298, 392–94

economic goods spontaneously resulting from leisure activity, 184–86
pervasive within and outside market exchange, 180
pure side effect goods, 182–84
reasons for them overlooked by many economists, 219–20. *See also* equivalence postulate
human action, harmful but spontaneous side effects of, 207. *See also* gratuitous evils
human understanding, 55n24
Humboldt, Wilhelm von, 56n26, 313
Hume, David, 56n26
Husserl, Edmund, 20
Hutt, William H., 389n14

Ibbetson, D. J., 267n3
idleness, 69, 69n5, 146, 270, 331n24
ignorance trap, 102n3
incentive, 47–48, 100, 103, 115, 130, 148, 154, 156, 161, 174, 186, 190, 259, 272–73, 275, 298, 304–5, 308–12, 314, 330, 338, 341, 343–44, 346–47, 357, 373-74, 377, 380–81, 386, 390–92
income, 8, 11, 56, 64, 74n12, 97, 119, 124, 143, 147–50, 150n5, 152, 155–56, 164, 166, 172, 174–76, 196, 200, 202, 204, 243, 252, 255, 270, 274, 277, 293, 299, 305–6, 309–10, 324, 327–28, 335–37, 344, 346–47, 354, 360, 371, 388, 390–92
income effects, 145n3, 235, 313, 315, 319, 390n15
redistribution of income, 180n2, 181n2, 293, 311, 323, 325, 339, 357–58,
taxation of, 270, 321, 358–59
Indonesia, 64
inheritance, 76, 113–15, 119, 156–59, 170, 197, 284, 334, 394. *See also* bequests
taxation of, 114–15, 359
intellectual, 1n2, 9n10, 12, 70, 70n7, 103, 108, 111, 129, 204–5, 213, 220, 223, 227, 230, 232, 238, 329, 349, 350, 350n10, 351–52, 359, 382, 394–95. *See also* genius
intellectual property, intellectual property rights, 133, 204, 372. *See also* patent
intentional, unintentional. *See under* donations: donor; gratuitous goods; gratuitousness; human action
interest, 3–4, 210n21, 212, 230–31, 275, 315–18, 338, 341–42, 360, 377
negative interest rates, 317–19, 360, 379

"interest for" vs. "interest in," 73n11. *See also* altruism; selfishness
interventionism, 263–75, 287–89
  interventionism, impact on donations, 333–63
  interventionism, impact on side-effect goods, 365–92
Israel, 363, 389
Israel, Karl-Friedrich, 143n2, 145n3, 200n15
Italy, 64

Jauvert, Vincent. 328
Jesus Christ, 2, 98–99, 297
Jevons, William Stanley, 10, 26n22, 234, 355–56
Jhering, Rudolph von, 1n2, 70n8, 74n13 , 329
Joachim of Fiore, 350n10
Johnson & Johnson (pharmaceutical company), 271
Johnson, Lyndon (President), 309
Jones, Larry T. (incl. in Boldrin et al.), 373
Jouvenel, Bertrand de, 21, 315
justice, Aristotelian conception of, 220, 224, 228. *See also* equivalence postulate. *See also under* virtue
  just distribution, Aristotelian conception of, 221–22, 224–25
justice, Rothbardian conception of, 228–229

Kant, Immanuel, 9n10, 73n10
Kealey, Terence, 192n10, 373
Keenan, Dennis King, 67n3
Keller, Franz von, 3, 132n10, 288
Kelsen, Hans, 279n9
Keltner, Dacher (incl. in Stellar et al.), 132
Kenya, 64
Keown, John, 180n1
Keynes, John Maynard, 190n8
Kim, Iljoong, 47n13
Kinsella, N. Stephan, 33n2, 40n5, 42
Klein, Peter G., 190n8
Knafo, Ariel, 107
Knepper, Lisa, 47n13
Knies, Carl, 312n15, 330n21, 386n13
Knight, Frank H., 196, 202n17, 234
Köpping, Klaus-Peter, 83n19, 127n4
Kraus, Michael W. (incl. in Stellar et al.), 133

Kropotkin, Peter, 354

labor, laborer, 1n1, 2, 3n3, 6, 6n8, 7, 9, 9nn10–11, 32, 35, 40n5, 51–53, 55n25, 69, 69nn4–6, 91n23, 95, 97, 99, 107, 110, 113, 128–29, 146, 163, 169, 172, 175, 188, 196, 206, 211–13, 214n25, 215, 227–28, 231–32, 232nn11–13, 233–34, 242, 251–52, 254, 271, 273–74, 287, 301, 309–10, 328–29, 329n20, 337, 347, 359, 376, 389, 389n14, 391–92. *See also* division of labor; "mixing labor"
  forced labor, 321, 329
  labor theory of value, 232, 232n11, 233. *See also* value: theory of value
Laffont, Jean-Jacques, 207n19
Lalani, Shamin, 76n15
Landry, Craig, 353n11
Lange, Andreas (incl. in Landry et al.), 353n11
Lasch, Christopher, 349
Laum, Bernhard, 18–19, 19n19, 21–22, 72, 83n19, 89, 112–13n9
Lee, Hojun, 47n13
Lefebvre, Mathieu, 311n13
legal, enforceable claims and obligations (rights)
leisure, xv, 15, 20, 54–55, 55n25, 68–69, 69n4–5, 70, 84, 110, 123, 139, 143n2, 181, 184–87, 251, 255, 344, 349, 352, 362n15, 365, 382. *See also under* donations: donations, characteristics of
Lemennicier, Bertrand, 372n7
Leoni, Bruno, 367n3, 369
Leontjeva, Elena, 307n9
Levine, David K., 373
Lévy-Strauss, Claude, 14n15
Lewis, C. S., 97n1, 314
List, John A. (incl. in Landry et al.), 353n11
Łobaczewski, Andrzej, 350
Locke, John, 40, 43n7
logic of language and argumentation. *See under* claims and obligations
loot, 61, 82–83, 90, 171, 380
  loot sharing, 83, 281, 335
love, xi, 2, 21–23, 25, 36–37, 40, 42, 53, 58, 63, 66–67, 70–72, 76, 78, 81, 85, 96–97, 97n1, 98–100, 100n2, 101, 103, 106, 119–23, 141n1, 158–60, 160n13, 161, 169, 171, 182, 182n4, 184, 190, 194, 214, 260, 266, 279n9, 307, 329, 344, 381. *See also* altruism; friendship. *See also under* donations, motivations of

Mac Donald, Heather, 359
Machaj, Mateusz, 202n17
Machlup, Fritz, 372n7
Machovec, Frank, 202n17
Maclean, Mairi, 358
Madhavan, Guruprasad, 107
Maistre, Joseph de, 67n3
Malinowski, Bronisław, 351
Mallarmé, Stéphane, 351
Mandeville, Bernard, 56n26, 108n7
mantle (façade)
  of fiscal illusions, 321–23
  of genuine generosity, 118
  of gifts, 90, 92. *See also under* gifts, donations: false gifts
  of justice, 106
  of philanthropy, 359
  of prices, 124–25,
  of private law, 322
  of stability, 388
Manzo, Vida M. (incl. in Stellar et al.), 133
marginalism, marginalist, 11, 234
Marginalist Revolution, 10, 236
Marion, Jean-Luc, 20, 131n9
market exchange, xi, 4, 7–8, 11, 15, 28, 41, 46, 70, 92–93, 97, 103, 117–18, 120–21, 126n3, 131, 133, 147–48, 162, 179–80, 193, 198–200, 199n13, 201, 207, 209, 215, 219, 221, 222n2, 222, 224, 228–30, 232, 236, 241, 257–59, 264, 280, 311–12, 352, 359–60, 365, 379–80, 394, 397
market price, 32, 78, 144, 154, 200–201, 233, 283, 291, 294. *See also* value: desirability
Marshall, Alfred, 1011, 11n13, 14, 16, 26n24, 50, 50n19, 52n22, 207n19, 234, 236, 237n18
Martin, Xavier, 283n16, 295n4, 370n5
Marx, Karl, 15, 26, 26n23, 232–34, 234n14, 294, 313, 349–50, 397
Massin, Olivier, 40n5
Mattison, William C., 97n1
Mauss, Marcel, 14–16, 18, 22, 46, 67n3, 74, 101, 102n3, 111, 111n8, 112, 117–18, 126–27, 127nn4–5, 128–29, 129n7, 130, 130n8, 131n9, 132–34, 311n13, 331 393
Mazzotta, Fernanda, 363

McCann, Duncan, 170
McCully, George, 167
McDonald, Jennifer (incl. in Knepper et al.), 47n12
McGoey, Linsey, 358
McKinnon, Ronald I., 390n15
McQuillan, Lawrence J., 335
McWilliams, Paul, 267n3
Méadel, Cécile, 91
Means, Gardiner C., 190n8
Medina, Juan de, 125n2
Menger, Carl, 5n4, 10, 13, 26n22, 34, 34–35n3, 49n15, 54, 56n26, 85, 85n20, 125, 125n2, 130, 145n4, 187–89, 236–37, 394
Merrien, François-Xavier, 292
methodology
  holism (collectivism), 16, 129
  hypothetical methodology, 140
  individualism, 16, 129
  traditional method of political economy, 139
  participation methodology, 63–64
Mill, John Stuart, 15, 26n24, 236, 293, 313–14
Mises, Ludwig von, 13, 13n14, 15, 21–22, 25, 26n22, 49–50, 50n20, 52–53, 55n25, 57, 69–70, 74, 74n12, 75, 75n14, 8788, 93n24, 110111, 124, 124n1, 140, 143, 150n5, 168, 168n22, 172, 185, 185n7, 186, 190n8, 196, 213, 227, 229, 234n14, 237, 240n19, 268, 279n9, 287, 308, 316, 334n2, 335n3, 338, 352, 383, 389n14, 393
Mitchell, Mark T., 358
"mixing labor," 39–40. *See also* property rights
Mlčoch, Lubomir, 99, 345n6, 346
Molina, Luis de, 200, 228n7
monetary costs, 35, 227, 304
monetary exchange prices, 226–27
money, 1–2, 4, 5–6n6, 10, 12, 20, 31, 35–36, 48, 63–67, 71–73, 85–89, 91, 93, 103, 115, 117, 119, 126, 130, 142, 146–50, 153–55, 155n6, 156, 160, 166, 169, 171–72, 177, 179, 187–90, 192, 196–97, 199n13, 202–4, 209, 211, 212n22, 225–27, 239, 249, 256–57, 268–69, 271n5, 272–276, 78, 281, 285, 287, 294n3, 296, 299, 302, 306, 308, 316–18, 328, 331, 333–35, 337–41, 343–45, 352, 352n11, 353, 355–57, 365, 367–70, 375n8, 376–77, 379, 381, 384–85, 386n13, 388–89, 391–92, 395–97
  "commercial acquisition of money," 396
  "fetishism of money," 343

fiat money, printing press money, 7, 133, 155n6, 272, 274–75, 287–88, 312, 315, 317–18, 321, 337, 341, 360, 369, 376–79, 381–82, 384, 386, 395
money hoarding, 209–11, 240, 390–91
money lending at interest, 230–31
money supply, 2, 156, 273, 317, 337–38, 396
taxpayer money, government money, 11, 83, 288, 302, 336n4, 352n11, 376–77
moral hazard, 102, 272n6, 308, 350, 376, 382. *See also under* donations, motivations of
Morelle, Aquilino, 18n17
Morgan, Lewis Henry, 14n15
Mudrazija, Stipica, 363
Mueller, Frank (incl. in Maclean et al.), 358
Mueller, John D., xi, 25–26, 26nn22–24, 27, 70, 73n11, 74n12, 200, 257
Murray, Charles, 311, 348n8

Nanos, Janelle, 170
Naudet, Jean-Yves, 48n14
Nielsen, Waldemar A., 359
Nigeria, 64
Nold, Patrick, 168n21
nonaggression principle (Roth-bard's), 228, 228n7, 229
noneconomic goods, 58, 87
abundance, abundant, xii, 9–10, 15, 34, 51, 53, 85–89, 105, 148–49, 154, 158–59, 184–85, 201, 204, 206, 214n25, 247–50, 259–60, 306, 310, 315, 355
non-gifts. *See under* gifts
non-gratuitous goods, 33n2
nonprofit, 149, 156, 164–65, 165n20, 166–67, 235n15, 288, 336n4, 360, 361n13, 377, 395.
See also for-profit; philanthropy in pure gift economy, 168–69 in market economy ("sharing economy"), 169–71; *see also* sharing, forms of
Nozick, Robert, 352

Oakley, Barbara, 107
Olivi, Pierre Jean, 85n20, 132n10 opportunity costs, 34–37, 40, 55, 101, 149, 151–53, 156, 174–76, 191, 231, 252, 340–41, 395
order, types of. *See also* social order
deliberately designed order (*taxis*), system, 56n26, 368n4

spontaneous order (*cosmos*), 56n26, 368n4
Oresme, Nicolas, 26n24
Osberg, Lars, 69n4
Osterloh, Margit, 330n22
Ostrom, Elinor, 173, 253
O'Sullivan, Richard, 278n3
ownership, owned, owning, 35, 44, 45n10, 46n12, 52n22, 53, 77, 82, 115n10, 133, 170–74, 176, 180n2, 189–89, 191, 230n17, 253, 257, 269, 279, 284–85, 295, 297, 328n19, 330, 367, 383–87
owner, 4, 38, 43–46, 52, 82–83, 90, 119, 127, 130, 158–159, 170-72, 175, 189–90, 190n8, 191–92, 211–12, 228, 252, 256, 266, 268, 271, 276, 285, 288, 295, 302, 328n19, 368, 387, 384, 387
theory of, 190n8

Padioleau, Jean G., 303n8
Palyi, Melchior, 273, 383
Papandreou, Andreas, 207n19, 236n16
Pareto, Vilfredo, 10, 16, 234
Parisi, Lavinia, 363
Park, Hayeon Carol, 335
payment, compensation, 32–34, 41, 80, 90, 92, 120, 127–28, 132, 134, 155, 171, 197, 207, 213–14, 231, 233, 239, 255–56, 264, 282–83, 285, 298–99, 302, 305, 323, 327, 352, 366, 374, 394
forced payment, 83
without payment, without compensation, xi–xiii, 27, 31–32, 37, 57–58, 71, 75-76, 90, 122, 127, 161, 207, 220, 235, 266, 305, 318, 328
Payne, A. Abigail, 61n1, 352n11
Penrose, Edith, 372n7
Pernoud, Régine, 3
Perroux, François, 15–16, 16n16, 22
Pesch, Heinrich 231–32
Pestiau, Pierre, 311n13
philanthropy, philanthropist, 167, 359–60. *See also* charitable organizations
philanthropic enterprise, 163–64, 167, 249, 305, 333, 358, 361–62
philanthropy myth, 165n20
Pieper, Josef, 9n10, 20, 22, 41n6, 55n24, 66, 68, 88–89, 89n21, 110, 162, 184–85, 349
Piff, Paul K., 132
Pigou, Arthur Cevil, 9n12, 11, 11n13, 21, 236, 310, 311n12
Plato, 1n1, 96, 223, 223n4, 224, 230, 293, 327, 395

Plotinus, 97n1
Pol, Elyse Smith, (incl. in Knepper et al.), 47n12
Polanyi, Karl, 254n1, 397
Polleit, Thorsten, 287
positive external effects, externalities, 235, 237, 239, 242, 245, 255–56, 298n5, 299,
  theory of, 209, 237–38, 245, 300n7
Premerstein, Anton von, 329n21
preparedness, 76. *See also under* donations: donations, characteristics of
Price, Michael K. (incl. in Landry et al.), 353n11
prices, xi, 4, 10–12, 17, 31–36, 40, 78, 87, 90–93, 95, 124–26, 140, 142, 144, 145n3, 146, 148–49, 151–52, 154–55, 166, 168–69, 176, 180n2, 181n3, 188–90, 196, 198, 200, 201–3, 203n18, 204–12, 214–15, 223, 226–27, 229–32, 232n12, 233–35, 237, 255–57, 269, 273–75, 282–83, 286, 294, 303, 315–16, 319, 327, 354, 365–66, 368, 374, 376–77, 382, 386, 388–89, 391–92. *See also* donations: genuine gifts combined with genuine prices
  hidden prices, 90, 92, 162, 325, 335, 325, 335
  price controls, 180n2
  price-deflation, 153–55, 154–55n6, 190, 392
  price effects, 193, 200
  price inflation, 274–75, 317, 319, 346, 346n7, 386, 389–90, 390n15, 391–92
  theory of prices, 11, 125n2, 215, 232, 234
priority (homesteading), 42, 51. *See also under* claims and obligations
privatization, privatizing, 47, 47n13, 48, 57, 130, 173, 189, 240, 247, 252–56, 365–67, 369–70, 374, 376, 390–91, 394–95
problem of incidence, 119
producer, 40–41, 112, 169, 179, 181n2, 197, 201, 205–6, 238–39, 255, 271, 286, 299, 337, 354, 357, 366, 375
  producers' goods, 337
  producer surplus, 197
production, productivity, 3–4, 7–8, 10, 12, 18–19, 23, 25, 26n22, 35–37, 39–42, 49, 51, 88, 108, 134, 141, 143–44, 148, 152–54, 155n6, 157–61, 166, 168–69, 172, 175–76, 183, 186, 188, 192n10, 196, 201–2, 203n18, 206–7, 211–12, 214n25, 215–16, 219, 232, 234, 239, 248, 252, 264, 272–73, 275, 280, 285–86, 292, 295–98, 298n5, 299–300, 300n7, 301–2, 305, 315, 333–34, 337–38, 352, 354, 368, 375–76, 385, 392, 394
  cost of production, 215, 231–34, 239, 256, 263, 300, 376,

law of roundabout production, 158, 168
means of production, 180n2, 233, 268, 302, 319, 384
underproduction, non-production, 238, 242, 301
profit-and-loss, profits and losses, gains and losses, 13, 164, 195–97, 222–23, 235, 243–44
losses, 191, 195, 231, 339
profit motive, 103, 131, 169, 201. *See also* for-profit; selfishness
profit, profitable, 3–4, 23–24, 107, 124, 124n1, 141–42, 148, 151, 165–66, 176, 189, 191, 195–97, 203, 205–6, 212, 232n12, 233–34, 250, 252, 293, 296–97, 299–300, 318, 329, 341, 353n11, 374, 387. *See also* for-profit
taxation of, 321
property, private property, 5n4, 7n9, 38, 40n5, 44, 44n9, 45–48, 48n14, 49, 49nn15–16, 57, 60, 67n3, 70, 75, 83, 88, 96–97, 109–10, 112–15, 115n10, 117, 120, 135, 149, 168n21, 170, 172–74, 176, 190–92, 215–16, 228, 248, 253–54, 256–258, 266–69, 275–77, 284, 287, 308, 366, 369, 380, 384–86. *See also* intellectual: intellectual property
property law, 12, 128, 130
property relation, 40–42
taxation of, 285
theory of property, 228–29
property rights, private-property rights, 5n4, 8, 16n16, 28, 40, 43–46, 48–50, 52, 61, 71, 78, 82, 112, 132–134, 140, 200, 204, 228, 228nn7–8, 229, 247–48, 258, 264, 268, 276, 278–79, 279n9, 280, 283–85, 287–88, 335–336, 344, 366, 372, 394, 396–97. *See also under* claims and obligations
proportionality, proportional, 67, 149, 221. *See also under* donations: donations, characteristics of
Proudhon, Pierre, 22, 313, 315–17
Proudhon-Bastiat debate, 317
Prouteau, Lionel, 71
Prychitko, 164n17
Puviani, Amilcare, 320–21

Rand, Ayn, 132n10
rationality, rational, 4, 25n21, 183, 259, 345, 387, 390
contrived rationality, constricted rationality, 381–82, 384, 386
rational beings with capacity to choose, 38
rationalism, 344–45, 382n12, 384
rationality traps (prisoner's dilemmas), 272, 319, 377, 377n9, 378

reciprocity, reciprocation, 14, 75–76, 117–18, 120–21, 162n15, 222n2, 248, 250
  reciprocate, 120–21, 126
  unreciprocated, 111n8
Reinach, Adolph, 38n4, 40n5
Reisman, George, 172, 234, 389
responsibility, responsible, 48, 103n4, 184, 190–91, 231, 254, 310, 314, 327, 382, 385–87, 395
  irresponsibility, irresponsible, 7–8, 268, 272, 333, 380, 383, 394
restitution, 83
return on capital (ROC), effects of, 148–153. *See also* financial leverage, causes of
Rhonheimer, Martin, 21, 48n14, 81n18, 108, 132n10, 161n14, 172, 180n1, 359
Ricardo, David, 9n12, 10, 26n24, 52, 213n24, 214n25, 232, 232n13
Rickenbacker, William, 370
rights. *See* claims and obligations; property rights
Riley, James C., 354n12
Rimbaud, Arthur, 351
Robin Hood, 83
Robinson Crusoe, 201
Robinson, James A., 49n17
Röpke, Wilhelm, 13n14, 236, 311n12, 383–84
Romer, Paul, 192n10
Rothbard, Murray N., 21, 43n7, 51n25, 69, 119, 149, 159n12, 168n22, 216, 228, 228n7, 232n11, 237n18, 266n2, 287, 297, 302, 309, 330n23, 334n2, 366, 389n14
Rousseau, Jean-Jacques, 15, 283n16, 293, 313
Ruys, Philip, 337
Rupp, Nicholas G. (incl. in Landry et al.), 353n11

sacrifice, 20, 23, 66–67, 67n3, 68, 80, 84–86, 88–90, 113, 117–18, 122, 129, 141–42, 146, 160–61, 161n14, 162, 191, 212, 259, 272, 278n8, 297, 300, 317, 344–46. *See also* self-denying motives; self-sacrifice
sacrifice trap, 102n3
sacrificial abundance, 87–88, 249; *see also under* donations: donations, characteristics of
sacrificial goods, 84–85; *see also* earmarked personal savings
Sagot-Duvauroux, Dominique, 372n7

Sahlins, Marshall D., 14–15, 86, 129n7
Saint Paul, 2
Salerno, Joseph T., 79n17, 145n3, 155n6, 237n17
Sales, Francis de, 66
Salin, Pascal, 287, 302, 320n17
Samaras, Thanassis, 68
Sammeroff, Antony, 315
Samuelson, Paul A., 208n20, 297–98, 298n5, 300
Sanchez, Kathy (incl. in Knepper et al.), 47n12
Santa Claus theory of the state, 263
Savigny, Friedrich Karl, 56n26
savings, 4, 48, 66, 84, 86, 90, 111, 113, 133, 148–49, 151–53, 155–157, 175, 190–91, 209–13, 249–50, 255, 286, 316–18, 337–41, 343, 365, 371, 377, 389–92, 394
Say, Jean-Baptiste, 6–7n9, 9–10, 16, 22, 26nn22,24, 86, 213n24, 214n25, 251
scarcity, scarce, 15, 23, 34–35, 37, 47, 84, 87, 154, 171, 201, 204, 212, 232n13, 247, 253, 263, 314–15, 317, 319, 389. *See also* economic goods
  cause of conflict, 44n9
tension scarcity, 34
Schelsky, Helmut, 352
Schneider, Friedrich, 388
Schoeck, Helmut, 132
Schönfelder, Bruno, 254
Schopenhauer, Arthur, 79n17, 105, 107, 249, 258
Schumpeter, Joseph A., 159, 237n17, 344–46, 348, 384–86
Seldon, Arthur, 21
self-denying motives, 74–75n13
self-gratification, 66, 69, 69n6, 79, 81, 84–85, 88, 249, 292
self-interested behavior, 78–79, 81, 187, 248, 352
selfish, egoistic, 57, 67, 72–73, 75n13, 97, 103, 106, 122, 191, 201, 248, 278n8, 327, 330, 358
self-ownership, 43, 43n7. *See also* ownership
self-sacrifice, 132, 331
Sennholz, Hans, 287
servile state, 396
sharing, 19, 76, 99, 170–72, 174–177, 256, 317
  "sharing economy." *See under* non-profit organization
Shaw, Edward S., 390n15
Shearmur, Jeremy, 17

side effects, 6, 37, 92, 169, 180, 182n6, 183, 187, 189, 195, 204, 215, 219, 255, 259, 302, 347, 367, 376, 389–90, 394, 397
side-effect goods, 27, 181–82, 188, 207-208, 219, 248, 254–55, 257–59, 285–86, 306, 365, 365n1, 366, 370, 374–78, 391–92, 394–95. *See also* human action: beneficial but unintended side effects of
side-effect harms, 215, 21. *See also* human action: harmful but spontaneous side effects of
Sidgwick, Henry, 236
Simonet, Maude, 91n22
Sintomer, Yves, 330n22
Sire, Guillaume, 91
Slee, Tom, 177
Smiles, Samuel, 354
Smith, Adam, 4–5, 5n5, 6, 6n6–8, 9, 9nn10–11, 10, 15, 25, 26n24, 46n12, 52, 56n26, 79, 93, 107, 213n24, 214n25, 232, 232n12, 284, 293, 296–97
Snowden, Edward, 388
social order, 10, 46, 49, 56n26, 247, 257, 265, 266n2, 336. *See also* types of order: spontaneous
social relations, 14, 37, 44, 93n24, 98, 113, 115n10, 117–18, 121, 127, 133–34, 139, 175, 240, 264, 271n5, 284–85, 289, 292, 312, 366, 369
normative context of, 37–38
Socrates, 233n4
Sombart, Werner, 3, 384
Somin, Llya, 47n13
Spencer, Herbert, 74n12, 115n10, 264, 284
Sraffa, Piero, 26n23
Stancata, Daniel M. (incl. in Piff et al.), 132
Stark, Rodney, 2–3
state as provider of gratuitous goods
charity versus welfare state, 302–13
enabling state, 313–19
exceptions to rule of law to increase popular support, 292
fiscal illusions, 319–25
gratuitous goods to increase popular support, 292
legal monopolies, 294–95
political public goods, 295–302
selfless state agents, 325–31
Steiner, George, 18, 76, 123, 349, 351
Stellar, Jennifer E., 133 Sternberg, Robert J., 132n10, 383

Stiglitz, Joseph E., 208n20
Strigl, Richard von, 26n22
subjective value, universal laws of, 145. *See also under* value
Sumner, William Graham, 47n13, 358

Tarde, Gabriel, 193n11
Taylor, Charles, 161n14
Thomas, Michael D., 161n15
Thrasymachus, 223n4
time, allocation of, 54n23, 377
tit for tat, 81, 90, 92–93, 101, 109, 112–113, 113n, 115, 117–18, 120–22, 125–26, 129–32, 161, 248, 282–83, 292, 296, 327, 359, 388. *See also* gifts: false gifts; mantle: mantle of gifts
Titmuss, Richard, 16–18, 21
Tocqueville, Alexis de, 288, 353–54
Tolkien, J. R. R., 368n4
Tooley, James, 295
Trägårdh, Lars L., 315n16
Tucker, Gideon, 284
Tullock, Gordon, 324
Uhlaner, Carole Jean, 71n9
unintended consequences, 70, 181, 201, 302. *See also* human action, beneficial but unintentional side effects of; human action, harmful but spontaneous effects of
United Kingdom, 64, 274, 357
United States, 64, 102, 353–54

Vainė, Aneta, 307n9
value, 6, 6n8, 9, 9n10, 10, 35, 70n7, 71, 82, 113, 141–42, 144, 149, 160, 173, 181, 181n3, 182, 197–98, 201, 213, 213n24, 214n25, 225–27, 227n6, 233, 238, 241, 255, 299, 300n7, 316, 318–19, 342, 352, 354, 382, 384–85, 386n13, 392
  economic value, 23–24, 201, 205, 227n6, 232, 232n11, 244, 375
  equivalent value, 15, 20n20, 219, 221–23, 230; *see also* equivalence postulate
  desirability (exchange value, market price), 78, 144, 229, 232, 232n13, 233
  inversion of values, 2, 319, 378–379
  moral values, traditional values, 2, 25n21, 251
  standard of value, measure of value, 225–27, 227n6, 232n11

subjective value, personal value, 12, 35, 67n3, 78, 140–41, 144–45, 145nn3–4, 146, 160, 162n15, 167, 198–99, 229, 243, 249–50, 391
theory of value, 67n3, 228–29, 232nn11–12
usefulness (use value), 78, 251
value effects, 197–200, 235, 255
van Dun, Frank, 41n6, 44n9, 280
Vaubel, Roland, 326n18
Veal, A. J., 69n4
Veblen, Thorstein, 3n3, 69n5, 193n11
Veyne, Paul, 358
virtue, virtuous, 20, 57, 86, 99–100, 106, 132, 160, 160n13, 161–62, 168, 182, 182n6, 184–85, 220, 227, 244–45, 259–60, 305, 314, 327, 328n19, 344, 370, 381, 394
Voegelin, Eric, 266n2, 350n10, 382n12
Vyšniauskaitė, Marija, 307n9

Walras, Léon, 10, 15, 202n17, 215, 234, 243
"verbal Walrasians," 237n17, 242
Watson, Szpindor, 74n12, 77
wealth, wealthy, 1–2, 4, 6, 9, 11, 15, 56–57, 63–64, 68, 84–86, 88–89, 133, 147, 149, 150n5, 151, 154, 156–57, 159, 174–77, 204, 213, 224, 249, 271n5, 273–75, 297, 305, 316–17, 324, 328, 333–36, 339, 343, 356, 358–60. *See also* additions to wealth
artificial wealth, 333, 360
inequality of wealth, 113, 316–17
inherited wealth, bequest of wealth, 113–14, 156, 158, 158n10, 159, 334, 360, 377, 381, 396; *see also* bequests; inheritance
redistribution of wealth, 180n2, 196, 242, 278, 293, 311, 323, 357–58, 374, 388, 395
wealth effects, 200–201, 235, 255–56, 258, 365–66, 389, 391–92
Weber, Max, 92, 122, 264, 277, 277n7, 329n20
welfare state, 7, 21, 110, 128, 134, 281–83, 285, 289, 303, 303n8, 304, 306–11, 311n12, 313, 319, 322–27, 34, 346–48, 348n8, 352–53, 357, 363, 365, 381, 386, 390. *See also under* economics; state as provider of gratuitous goods
Bismarckian welfare state, 293
Canadian welfare state, 324–25
Elizabethan welfare state, 304, 306
international welfare state, 326n18
theory of, 28

West, E. G. (Edwin G), 295, 306, 370
Wicksteed, Philip, 6n6
Wieser, Friedrich von, 10, 16, 236, 237n17
Wilson, David Sloan, 107
Wojtyla, Cardinal Karol, 43n7, 97n1, 121–22, 141n1
Wolff, François-Charles, 71
Woods, Tom, 3
Wright, Karen, 353n11
Wu, John C. H., 267n3

Yang, Roumei (incl. in Maclean et al.), 358
Zamagni, Stefano, 162n15, 222n2
Zimbabwe, 64
Zitelmann, Rainer, 352
Zuiderhoek, Arjan, 358
Zunz, Olivier, 165n20

THE MISES INSTITUTE exists to promote teaching and research in the Austrian School of economics, and individual freedom, honest history, and international peace, in the tradition of Ludwig von Mises and Murray Rothbard. These great thinkers developed praxeology, a deductive science of human action based on premises known with certainty to be true, and this is what we teach and advocate. Our scholarly work is founded in Misesian praxeology, and in self-conscious opposition to the mathematical modeling and hypothesis-testing that has created so much confusion in neoclassical economics.

We are especially guided by their most important books: Mises, *Human Action*; *Theory of Money and Credit*; *Socialism*; *Liberalism*; and *Theory and History*. Rothbard, *Man, Economy, and State with Power and Market*; *America's Great Depression*; *An Austrian Perspective on the History of Economic Thought*; and *The Ethics of Liberty*.

Founded in 1982 by Llewellyn H. Rockwell, Jr., with the blessing and aid of Margit von Mises, Murray N. Rothbard, Henry Hazlitt, and Ron Paul, the Institute seeks a free-market capitalist economy and a private-property order that rejects taxation, monetary debasement, and a coercive state monopoly of protective services.

Non-political, non-partisan, and non-PC, the Institute works with students and scholars from many countries, and reaches out to business leaders, professionals, and everyone else interested in our mission. We believe that our foundational ideas are of permanent value, and oppose all efforts at compromise, sellout, and amalgamation of these ideas with fashionable political, cultural, and social doctrines inimical to their spirit.

For more information, see mises.org, write us at contact@mises.org, or phone us at 1.800.OF.MISES.

Mises Institute
518 West Magnolia Avenue
Auburn, Alabama 36832
mises.org